



Leeton and Narrandera Councils

Fit for the Future - Shared Modelling

April 2015

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1. INTRODUCTION

1.1 Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Leeton Council and Narrandera Council have commissioned Morrison Low through the Office of Local Government Merger Business Case Panel to undertake a merger business case using a broad range of factors (financial, social, environmental) in order for each council to understand the implications of the merger of the two councils proposed by the Independent Local Government Review Panel.

1.2 Shared modelling

The modelling is prepared on the basis of the information publicly available and augmented by the councils. The modelling is provided identically to all of the councils in the project.

Where the data is inconsistent or unclear it has not been included and will be recorded as either 'no data' or 'no result'.

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow the councils to individually and collectively understand what the benefits and dis-benefits of the merger of the councils. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise each council of the best option for them (although it may naturally fall out of the modelling). The project provides the information that will enable each council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of the council's submission.

1.3 Tight timeframes

The timeframes for this project have been challenging but we appreciate that the work has been required to allow plenty of time for each council to work through issues with the community or potential merger partners and prepare submissions for 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result. The standardisation of the data across the two councils has been conducted on a best efforts basis under those particular timing constraints.

The data provided within the model is drawn from a variety of sources (including the councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and workshops with the councils.

Notwithstanding these constraints, we have had great support from the staff of each council, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the executives and staff of the councils for their input and cooperation.

2. SCOPE

2.1 Multiple scenarios

The shared modelling project was undertaken on the basis of evaluating the following options.

1. Status Quo

The baseline is measured against what each council has reported the current and future financial position to be. The analysis is based on the published Financial Statements and Long Term Financial Plans of the councils.

2. Meeting the Benchmarks

This scenario answers the question as to what each council would need to do to meet the Fit for the Future benchmarks. It does not address the question of scale and capacity and concentrates on the seven government benchmarks.

The scenario is built up by separately considering the operating result, asset renewal, asset maintenance, and the infrastructure backlog. It identifies what, if any, funding gap exists but it does not identify how the gap is to be resolved as that is a question for each individual council. In some cases this has required a standardised approach to be used to provide comparability.

We acknowledge the work each council has done to understand its assets and community priorities and our analysis and assessment should be understood as applying to the context.

3. Merged Council

This scenario models a merger of the two councils and assesses the advantages and disadvantages of this against a series of criteria. The agreed criteria include financial and non-financial indicators and go beyond the government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

The scenarios assess the advantages and disadvantages of this approach including the financial costs and benefits.

2.2 Reporting

This report is intended to provide a collective body of information that each council will then use to determine what is in the best interests of the council and community. As such it does not seek to recommend any one option over another option for a particular council.

The report compares options and highlights advantages and disadvantages. The relative weighting that each council then applies will be a matter for each individual council.

3. EXECUTIVE SUMMARY

This executive summary provides the key outcomes from our analysis. However the full report needs to be read to provide the context to the analysis and assumptions that underpin the modelling.

3.1 Scale and capacity

The Government has made it clear that the starting point for every council is scale and capacity.

In the case of Leeton Council and Narrandera Council, and based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other.

While either council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that. In the case of both Councils it may be difficult, given the size of the individual councils and the population they serve to meet the government's test around scale and capacity on its own but that is something for the Councils to assess individually. However, in our view there is little difference between the existing scale and capacity of each council and the merged council when considered against the Independent Panel's ten key elements of capacity. This is particularly the case for Leeton.

3.2 Fit for the Future benchmarks comparison

The government has established a set of Fit for the Future Benchmarks which all councils are being assessed against. We have undertaken a detailed analysis of the financials and asset management approaches on the following basis:

- Leeton Council: A base case
- Narrandera Council: A base case
- A Merged Council: Analysed on the base case basis

The table below summarises the results of that analysis.

Table 1 Overall comparison of options against Fit for the Future benchmarks

Council	Leeton Council	Narrandera Council	Merged Council	
			Day one	Modelling period
Operating Performance	No	From 2017	No	No
Own Source Revenue	Yes	No	No	No
Debt Service Cover	Yes	Yes	Yes	Yes
Asset Maintenance	Yes	Yes	Yes	Yes
Asset Renewal	No	No	No	No
Infrastructure Backlog	No	No	No	No
Real Operating Expenditure	No	No	No	No

3.3 What is required to meet the benchmarks

In order for the individual councils to meet the Fit for the Future benchmarks throughout the period from now until 2023 each council would need to address both an operating performance funding gap and an asset funding gap.

While each council meets the asset maintenance ratio benchmark, the table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset renewal ratio and bringing the infrastructure backlog¹ to the benchmark of 2% within five years.

Table 2 Summary of infrastructure funding gap

Council ²	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Leeton Council	-4,050	-1,761
Narrandera Council	-1,584	-1,335

The table below identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFFP. Narrandera Council shows an operating surplus while Leeton will need to address a funding gap in order to meet the benchmark.

Table 3 Operating performance funding gap

Council	Average gap (\$000)
Leeton Council	-1,410
Narrandera Council	458

3.4 Merged council

3.4.1 Scale and capacity

On the basis that the independent panel recommendation proposed that the two councils merge, it can be assumed that a merged council would achieve the scale and capacity requirements.

The table below shows a comparison between the two councils, the merged council and Yass Valley Council as a comparator council that has a population similar to what the merged council would service. We note that Yass was not designated for a merger by the Independent Review Panel and so the inference must therefore be that Yass has scale and capacity.

¹ Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology
² Infrastructure funding gap does not take into account any potential SRV applications

Table 4 Council comparison

	Leeton	Narrandera	Merged	Yass Valley
Full time equivalent staff	130	131	261	133
Geographic area	1,167km ²	4,117km ²	5,284km ²	3,998 km ²
Population	11,498	6,071	17,569	15,981
Annual expenditure	\$25.6 million	\$19.1 million	\$31.6 million	\$30.14 million

3.4.2 Funding shortfall

The merged council is the sum of its parts. This means that the asset and financial position of each council directly contributes to the overall asset and financial position of the merged council. As with the individual councils, the merged council does not meet all of the asset related benchmarks. Therefore a funding gap in order to address the asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 5 Merged council asset funding gap

Council	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Merged Council	-5,890	-2,895

In addition the operating performance of the merged council (considered under the Operating Performance Ratio criteria and therefore excluding grants and contributions for capital purposes) is below the benchmark and on average is projected to record operating deficits of \$1.4 million per annum over the same period.

3.4.3 Fit for the Future benchmarks

A merged council would meet two of the indicators from day one; Debt Service Cover and Asset Maintenance Ratios.

Of the other indicators:

- The Operating Performance ratio improves steadily from a low of -8.4% at the time of the merger until 2020 when it gets to 2.7% before starting to decline again.
- The Own Source Revenue almost achieves the benchmark requirement of 60%, averaging 59.6% for the years from 2019 onwards
- The Asset Renewals ratio peaks at around 67.5% in 2016 before falling back to an average of 60.6% from 2018 onwards, well below the required benchmark of 100%
- The Infrastructure Backlog rises consistently from 6.8% towards 16.9% by the end of the modelling period, remaining well above the 2% benchmark
- The Real Operating Expenditure shows a steady increase across all the years modelled

3.4.4 Debt

Both councils carry low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks debt servicing ratios, as does the merged council.

Table 6 Comparison of debt³

Council	Debt (\$000)	Debt Service Ratio	Debt per Capita (\$)
Leeton Council	\$1,369	0.9%	\$123.14
Narrandera Council	\$699	0.1%	\$102.05
Combined	\$2,068	0.6%	\$115.10

3.4.5 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy as there are a number of significant differences in the rating systems of the two councils which impact on the rates charged to an individual property. Assuming a single rating system would be put in place across the two councils, modelling of the impact on rates was carried out. Changes to the average business, residential and farmland rates have been modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the table below.

Table 7 Merged council modelled rating impacts

	Leeton (ad valorem)	Leeton (base rate)	Narrandera (ad valorem)	Narrandera (base rate)
Residential	+2%	-5%	-4%	+11%
Business	+28%	+13%	-41%	-19%
Farmland	-44%	-24%	+44%	+24%

3.4.6 Environment and community aspirations

While Narrandera can be characterised as being a smaller rural shire, and Leeton a larger and more urbanised area, both councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas. In general terms, the themes address priority areas including community strength and wellbeing, the natural environment, the local economy and employment, infrastructure and the built environment and strong and effective governance.

Both councils also have well developed aims around the protection of the natural environment. Narrandera Council has a particular aim to conserve environmental heritage while Leeton seeks to identify, protect, conserve and enhance Leeton's natural assets and to promote ecologically

³ Based on 2014 Actual

sustainable development as well as aiming to identify and protect Leeton's built and cultural heritage assets for future generations.

In respect to the economy and growth Narrandera seeks to support ongoing agricultural activity as the mainstay of the local economy and provide for a range of facilities and services to meet the needs of residents while Leeton seeks to preserve rural land, minimise land use conflict and environmental impacts and promote sustainable growth, housing choice and social service equity.

Both councils provide flexibility in their residential zones, allowing for a wide variety of uses and different dwelling types.

3.4.7 Representation

Assuming a merged council had ten councillors, compared to the present nine each for Leeton and Narrandera Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Narrandera.

Table 8 Comparison of representation

Council	Representation (population / Councillor)
Leeton Council	1,226
Narrandera Council	655
Merged	1,693 (10) ⁴

A possible four or three ward based electoral system has been modelled that would provide a level of representation across the merged council reflective of the populations in each area although further work would be needed on this to confirm it is possible under the current electoral provisions.

3.4.8 Community profile and communities of interest

Differences between Leeton and Narrandera reflect the different natures of the areas, with Narrandera being a smaller rural shire and Leeton being a larger and more urbanised area. Both areas have similar age profiles, similar household types and both areas have low multicultural diversity, and a lower education profile and an interdependency on Griffith.

The population of Leeton is predicted to decrease by less than 2% in the period to 2013 while the Narrandera is predicted to decrease by 20%, which is likely to pose significant issues into the future for the council, in terms of being able to fund necessary services.

3.4.9 Costs and savings of the merger

The costs and savings of the merger arising throughout the period have been modelled and should be considered in conjunction with the infrastructure funding gap identified above and the overall financial performance of the merged council when making a decision.

Transition costs are in the context of the two councils a significant cost in the early and mid-periods of the newly merged council and arise from costs associated with creating the single

⁴ Based on either 8 or 10 councillors

entity (structure, process, policies, systems and branding), redundancy costs and the implementation of a single IT system. Longer term costs continue to rise as staff numbers increase, which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. These are minor as only the General Managers are senior staff. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the two councils and creating greater efficiency in operation with reductions modelled in Tier 2 and 3 of the structure, the works units and back of office. While on first review the size of the two organisations seems large considering the populations they serve each has some specific services that create the staff numbers (Childcare, Teloca House) so in totality the overall decrease in staff numbers is small. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

Overall the modelling projects a financial benefit to the two councils and their communities arising from the merger as set out in the table below.

Table 9 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
\$6.3 million	\$5.3 million	\$4.5 million

The benefits should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council.

3.4.10 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from any merger that will need to be considered, including the following which have been outlined in this report:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs maybe higher and the anticipated savings may not be achieved
- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the two council organisations may not go well resulting in low morale, increased staff turnover rate etc, reducing business performance and prolonging the time it takes for the predicted efficiencies to be achieved
- Where two unequal sized councils merge there is a danger it is seen not as a merger but as a takeover by, in this case Leeton, the larger, more urban based council
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas
- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit

4. DETAILED ANALYSIS

4.1 Status quo

Leeton and Narrandera occupy a part of the Riverina in southern inland New South Wales. They share an airport and lie in the productive Murrumbidgee Irrigation Area. A map of the two areas is set out below and shows each council area and the current location of the main council offices which are located 30km apart.

Figure 1 Map of Leeton and Narrandera Councils



As a starting point, the councils' current performance against the Fit for the Future benchmarks⁵ has been considered and set out in the table below. We believe it is important to understand the respective position of each council as it is today and the results are those reported in the 2014 Financial Statements of each council. Figures in red are those where the Council does not meet the benchmark. We note that previously councils have not been required to report on the real operating expenditure ratio so these results were not published in the 2014 Financial Statements.

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector.

⁵ Reported in the 2013/14 Financial Statements for the respective councils

Table 10 Fit for the Future benchmarks 2014

Council	Operating Performance (%)	Own Source Revenue (%)	Debt Service (%)	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
Leeton Council	-9.48*	73.74	2,500	99	16	70.74
Narrandera Council	-13.55	48.5	133	99	3	72.48

**Leeton's Annual Report (pg 77) notes: Operating Performance Ratio has been severely impacted in 2013/14 due to the Federal Government not advancing the Financial Assistance Grant in 2013/14. This has reduced Council's Operating revenue by approximately \$1.9 million. Without this adjustment Council's ratio would be positive 1.53%. In 2014/15 this ratio is expected to improve.*

Based on each Council's reporting in their 2014 Financial Statements, Leeton meets two of the Fit for the Future benchmarks while Narrandera only meets one at the moment. We note that the changes to the Federal Assistance Grants would also have impacts Narrandera.

4.1.1 Fit for the Future indicators

While looking at the 2014 Financial Statements provides a historic view of performance Fit for the Future concentrates of forecast performance. We have undertaken an analysis of both Council's current financial statements, projected financial performance and applied a standardised approach to the calculation of all infrastructure ratios to provide consistency and comparability for the purposes of this assessment.⁶

Based on that modelling, Leeton Council will meet three of the benchmarks over the period until 2023 being Own Source, Debt Service and Asset Maintenance ratio.

Narrandera is projected to meet two of the benchmarks from now being Debt Service and Asset Maintenance ratios with one more attained during the modelling period being Operating Performance which is achieved in 2017.

The tables below provides a summary of each council's performance against the benchmarks. The figures that follow show the trends of the benchmarks over time for each council. The government has made it clear that the trend of Councils should be improving against the benchmarks. Where the results for each council's two scenarios are the same, it is shown as one line only.

⁶ The explanation for each is set out in section 4.2

Table 11 Leeton Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	<i>Does not meet the benchmark</i>
Own Source Revenue	<i>Meets the benchmark</i>
Debt Service Cover	<i>Meets the benchmark</i>
Asset Maintenance	<i>Meets the benchmark</i>
Asset Renewal	<i>Does not meet the benchmark</i>
Infrastructure Backlog ⁷	<i>Does not meet the benchmark</i>
Real Operating Expenditure	<i>Does not meet the benchmark</i>

Table 12 Narrandera Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	<i>Meets the benchmark from 2017</i>
Own Source Revenue	<i>Does not meet the benchmark⁸</i>
Debt Service Cover	<i>Meets the benchmark</i>
Asset Maintenance	<i>Meets the benchmark</i>
Asset Renewal	<i>Does not meet the benchmark</i>
Infrastructure Backlog ⁹	<i>Does not meet the benchmark</i>
Real Operating Expenditure	<i>Does not meet the benchmark</i>

⁷ The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

⁸ Council has advised that a separate piece of work being undertaken in relation to Fit for the Future will support a position that the Own Source Revenue Ratio is met on the basis of changing the accounting treatment of certain ongoing grant funds

⁹ The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 2 Operating performance ratio¹⁰

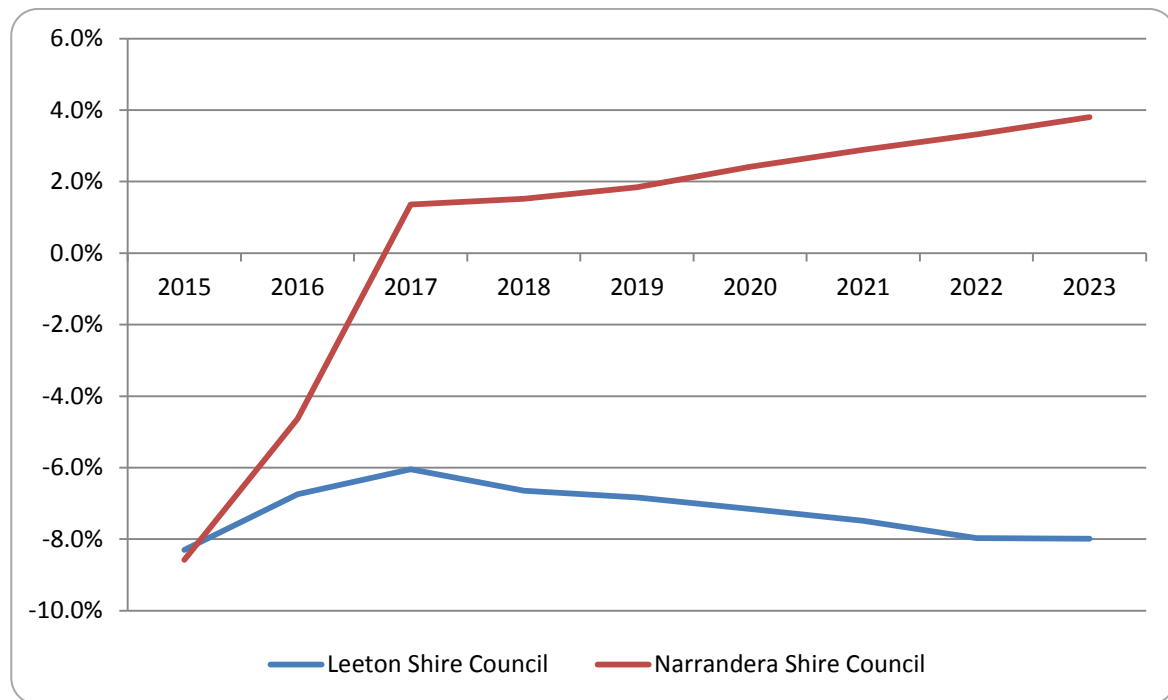
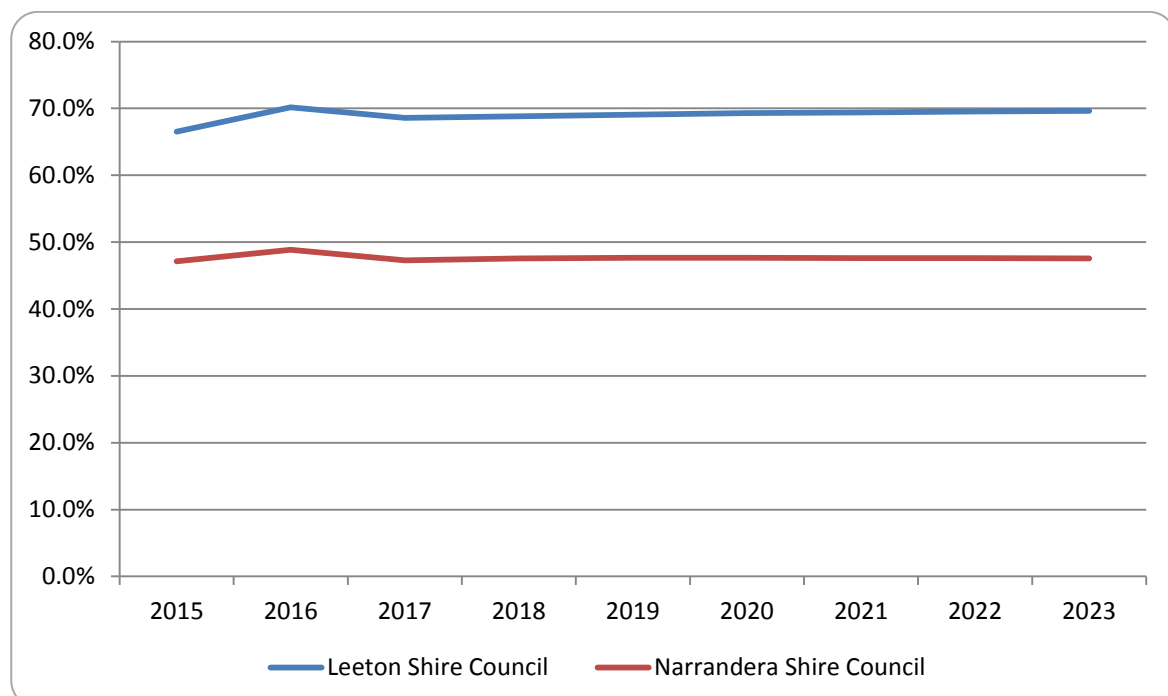


Figure 3 Own source revenue¹¹



¹⁰ Benchmark is greater than or equal to break-even

¹¹ Benchmark is greater than 60%

Figure 4 Debt service ratio¹²

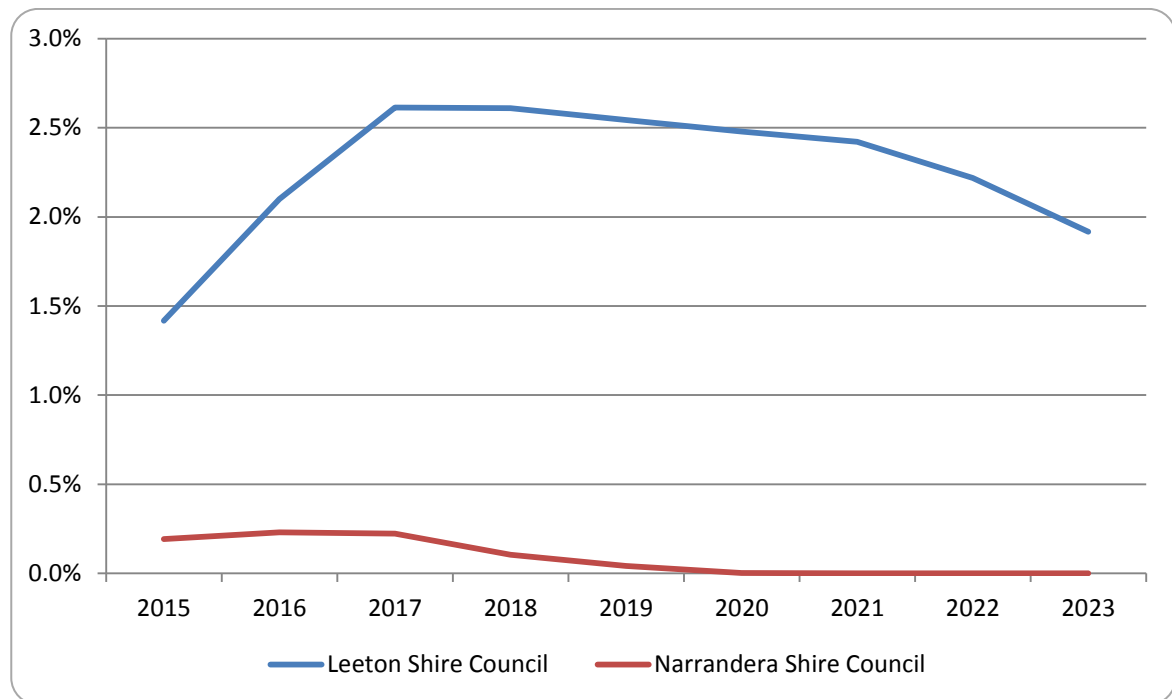
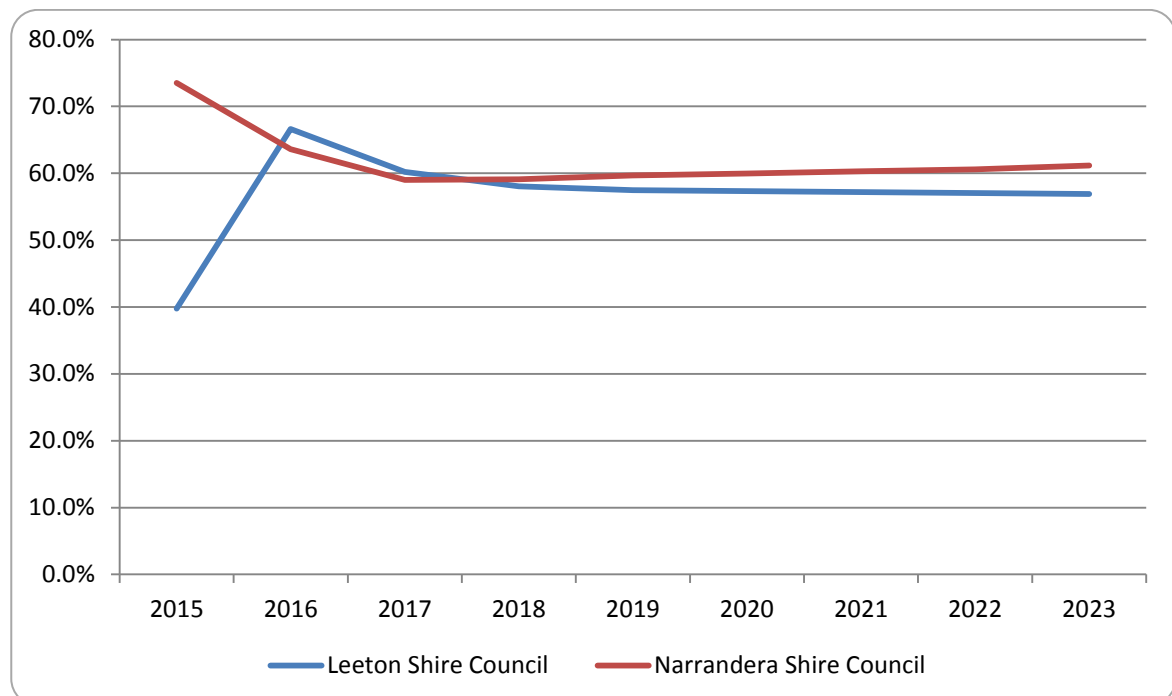


Figure 5 Asset renewal ratio¹³



¹² Benchmark is greater than 0 or less than 20%

¹³ Benchmark is equal to or greater than 100%

Figure 6 Infrastructure backlog ratio¹⁴

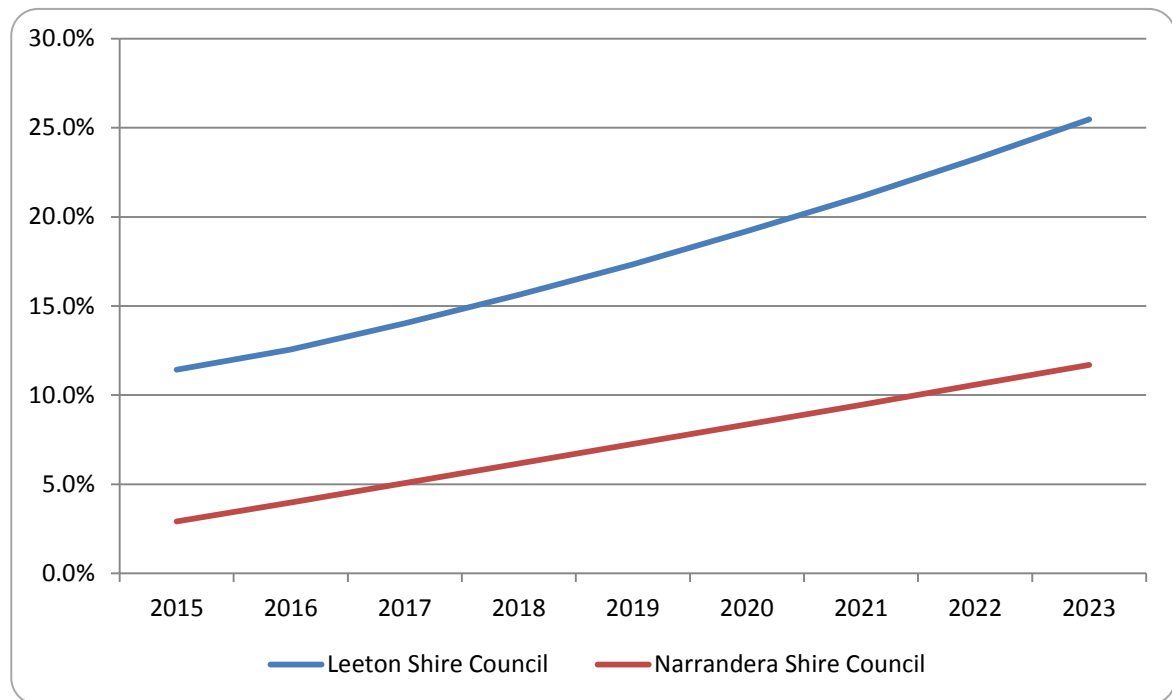
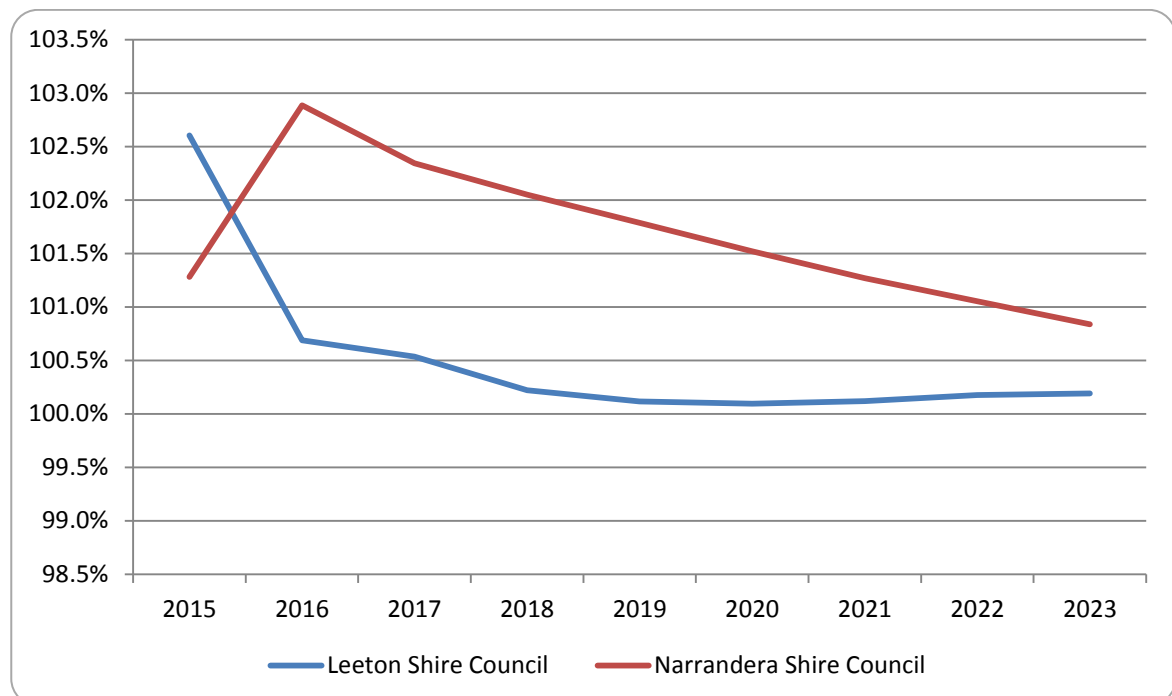


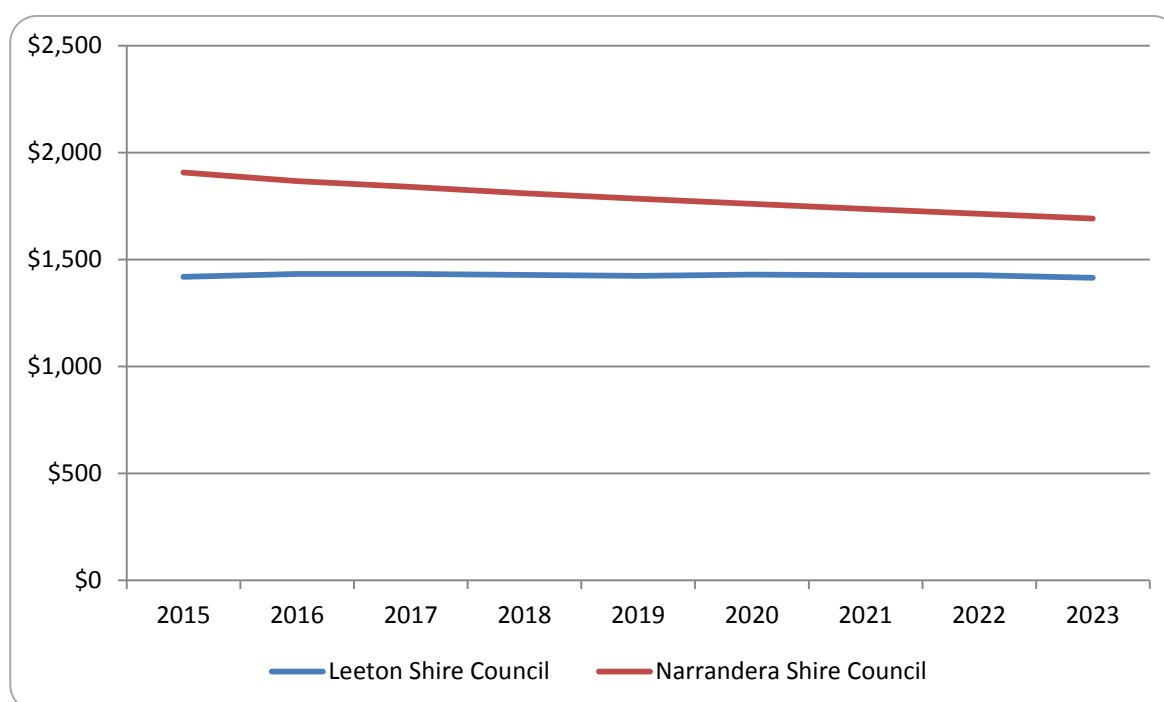
Figure 7 Asset maintenance ratio¹⁵



¹⁴ Benchmark is less than 2%

¹⁵ Benchmark is equal to or greater than 100%

Figure 8 Real operating expenditure¹⁶



4.2 Meeting the benchmarks

An analysis of what would need to be done in order for each council to satisfy the Fit for the Future benchmarks has been undertaken. The analysis is against each council's base case scenario. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered as has the operating performance ratio. Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exists that if satisfied would enable the council to meet the Fit for the Future benchmarks.

Where such a gap has been identified and should a council choose to pursue a standalone response to Fit for the Future, then the council will then need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses or a combination of both.

4.2.1 Operating performance

The operating result of each council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP.

The table below identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFP. Narrandera Council shows an operating surplus while Leeton will need to address a funding gap in order to meet the benchmark.

¹⁶ Benchmark is decreasing over time

Table 13 Operating performance funding gap

Council	Gap (\$000)
Leeton Council	-1,410
Narrandera Council	458

4.2.2 Asset maintenance

The maintenance ratio is based in part on the number each council reports as 'required maintenance'. The two councils elected not to standardise the calculation of required maintenance. Each council's assessment of required maintenance is therefore assumed to represent the actual amount required to maintain their assets in an appropriate condition.

The table below sets out the results of the modelling for both councils, with both demonstrating that they meet this benchmark. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 14 Asset maintenance funding gap

Council	Actual Annual Maintenance (\$000)	Estimated Required Maintenance (\$000)	Gap (\$000)
Leeton Council	2,381	2,374	7
Narrandera Council	2,527	2,488	39

4.2.3 Asset renewal

The asset renewal ratio is based on each council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

While the calculation of depreciation varies quite significantly across the two councils it is not possible to simply standardise depreciation in the same way that the required maintenance number can be. The assessment of depreciation is integral to the financial management of each council and their LTFP. Any change requires a proper assessment of the assets, condition, lives and values. The assessment of required asset renewals is therefore based on each council's own assessment of depreciation and required renewals.

The table below sets out the gap between the required annual renewals and projected renewals expenditure. Negative figures are highlighted in red and show the annual additional amount a council would need to spend on renewal to satisfy the asset renewal ratio. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 15 Asset renewal gap

Council	Average predicted annual renewals (\$000)	Average required annual renewals (\$000)	Average Annual Gap (\$000)
Leeton Council	2,447	4,215	-1,768
Narrandera Council	2,064	3,438	-1,374

4.2.4 Calculating the estimated cost to satisfactory

The estimated cost to satisfactory is the key driver of the infrastructure backlog ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and as such the approach varies significantly across NSW.

The two councils elected not to standardise the calculation of required maintenance. Each council's assessment of their cost to satisfactory is therefore assumed to represent the actual amount required to bring their assets to a satisfactory condition.

The table below sets out what each council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years.

Table 16 Cost to bring assets to satisfactory

Council	Total value of assets ¹⁷ (\$000)	Cost to satisfactory (\$000)	Target Backlog (\$000)	Reduction Required (\$000)	Per year (5 years) (\$000)
Leeton Council	184,669	13,876	2,429	-11,447	-2,289
Narrandera Council	201,111	3,951	2,705	-1,246	-249

4.2.5 Annual funding gap

The table below summarises the expenditure required by each council in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in both councils falls.

We have not included the funding gap related to the operating performance ratio in this table as that would not present a realistic picture of the required expenditure. Noting that both councils meet the asset maintenance requirements, any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the Council and therefore the Operating Performance Ratio. Additionally, a council may choose to address the funding gaps identified in Tables 13 – 16 by increasing revenue, shifting funding from another service or activity, reducing overall costs or a combination of all the above. This will all affect the other ratio. It is not therefore considered possible to simply add the Operational Funding Gap identified in Table 13 and Asset Funding Gap identified in Table 16 below together into a single figure.

¹⁷ Current replacement costs (2014)

Table 17 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
Leeton Council	7	-1,768	-2,289	-4,050	-1,761
Narrandera Council	39	-1,374	-249	-1,584	-1,335

4.3 Merged council

4.3.1 Description

The merging of the two councils into one council would create a council almost four times the current size of Leeton and although only 25% greater than Narrandera in size the population would be triple what it is now.

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of a new merged council and a comparison to Yass Valley Council¹⁸.

Table 18 Comparison of proposed merged council and Yass Valley Council

	Council	Yass Valley Council
Full time equivalent staff	261	133
Geographic area	5,284 km ²	3,998 km ²
Population	17,569	15,981
Annual expenditure	\$ 31.6 million	\$30.14 million

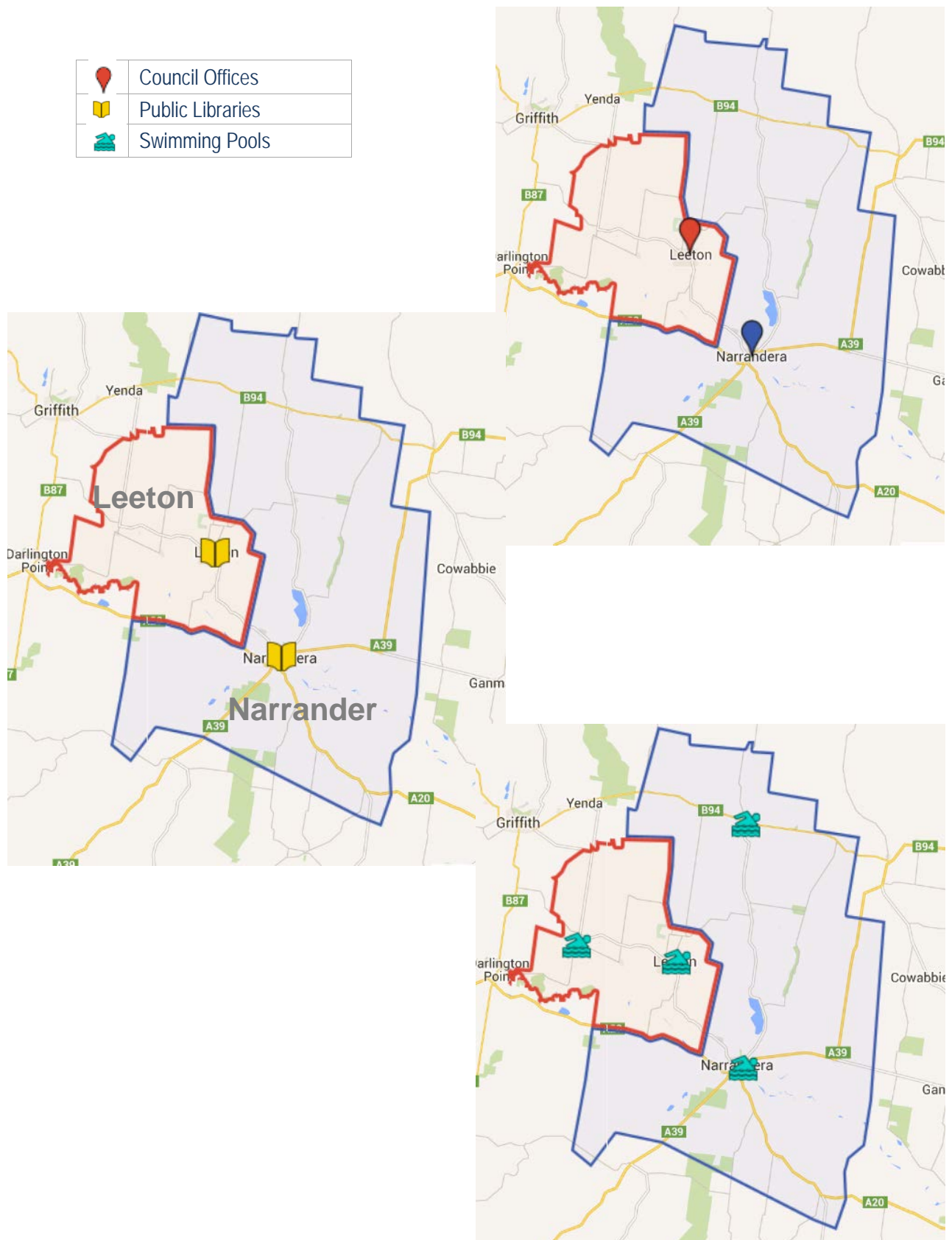
4.3.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council.

The reasons for these variations are numerous. For many councils the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices. Figure 10 highlights the locations of some key council services including council offices, libraries and swimming pools.

¹⁸ OLG Comparative Performance Data 2012-13

Figure 9 Key services and facilities of the councils



Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change.

The two councils are reflective of the broader local government industry and exhibit many variations on the types and levels of service that they offer to their communities despite their relative proximity. There are obviously cost implications for the councils providing different services and levels of service.

There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)
- variety in the levels of service delivered (frequency, standard)
- pricing.

The purpose of the figures above is to highlight the different challenge that a merged council will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Establishing a uniform, or at least consistent, service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs.

In assessing the advantages and disadvantages of a merger of the two councils, the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise.

4.3.3 Social, environmental and economic

The following is a summary of a communities profile and communities of interest study that is set out in Appendix E.

This desktop review of the communities of the two councils has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review is ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report¹⁹.

¹⁹ National Institute of Economic and Industry Research, March 2013

The Local Government Areas of Leeton and Narrandera have some similar features, and some differences, many of which reflect the different natures of the areas, Narrandera being a smaller rural shire, with Leeton a larger and more urbanised area.

Both areas have similar age profiles, with low adult retention and a high ratio of children to adults, though Leeton has a lower proportion of elderly residents. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

Leeton has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, slightly higher labour force participation and incomes, and lower unemployment. Both LGAs are in a cluster of areas with low wealth, mainly from properties and businesses with fairly high liabilities.

Studies of cross-border movements do not reveal high levels of interdependency between Leeton and Narrandera. The major interdependency for both is Griffith. Leeton has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

The strategic priorities of each of the communities, as expressed in the Community Strategic Plans, display commonality, with a clear priority around the unique environments of the areas.

4.3.3.1 Current Base Information

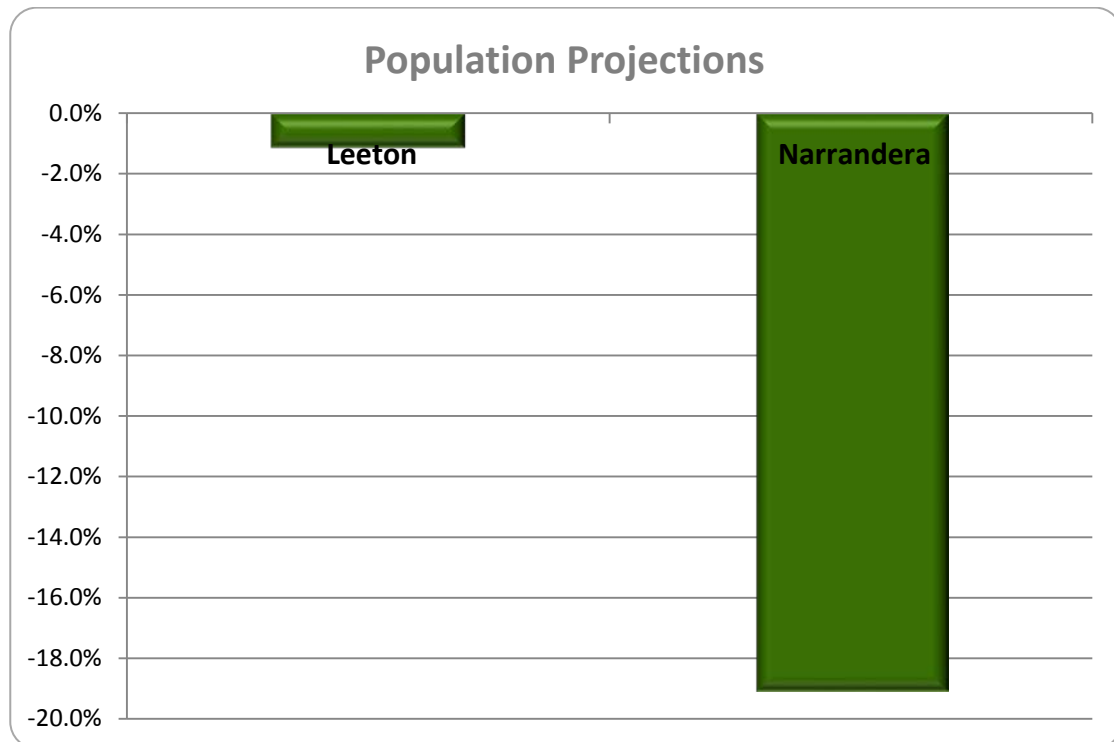
Table 19 Current Base Information

	Population (ERP 2013)	Land Area (ha)	Population Density (persons per ha)
Leeton	11,037	116,695	0.09
Narrandera	5,902	411,624	0.01

4.3.3.2 Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the Leeton and Narrandera areas. Leeton is forecast to see a slight decrease, and Narrandera a significant decrease of almost 20% over the same period. Such a decrease will have a direct impact on the ability of Narrandera to fund its operations into the future.

Figure 10 Population Projections

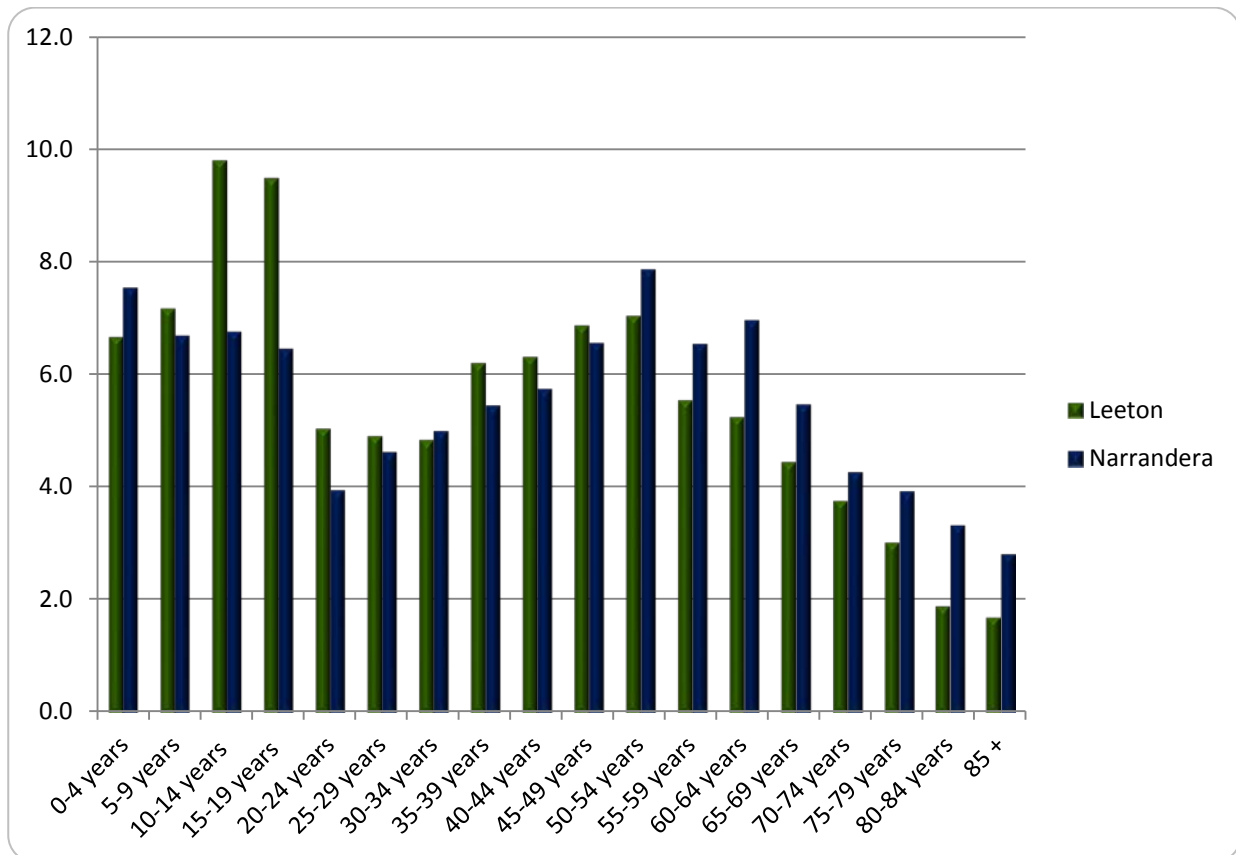


4.3.3.3 Age Structure

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis clusters Leeton and Narrandera in different groups for age structure, both having high ratios of children to adults of parenting age and low retention of young adults, however Leeton is in a group with a lower proportion of elderly residents.

Figure 11 Age Structure



Compared to each other, Leeton has a higher proportion of teenagers, young adults and adults between 35 and 49. Narrandera's age profile shows higher proportions in all the age groups over 50.

4.3.4 Environment

4.3.4.1 Natural and built

A summary assessment of the council's LEPs has been considered with the emphasis on:

- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In terms of the natural environment both Councils have well developed aims around the protection of the natural environment. Narrandera Council has a particular aim to conserve environmental heritage while Leeton seeks to:

- to identify, protect, conserve and enhance Leeton's natural assets
- to promote ecologically sustainable development

In respect to the economy and growth, perhaps reflective of its more rural nature, Narrandera's LEP seeks to support ongoing agricultural activity as the mainstay of the local economy and provide for a range of facilities and services to meet the needs of residents. Leeton's LEP has a broader basis for its approach to growth, seeking to preserve rural land, minimise land use

conflict and environmental impacts and promote sustainable growth, housing choice and social service equity.

Both councils provide flexibility in their residential zones, allowing for a wide variety of uses and different dwelling types.

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix C.

4.3.5 Representation

Assuming a merged council has less councillors overall, compared to the present nine each for Leeton and Narrandera Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Narrandera. The table below shows the impact if there were either eight or ten councillors in the merged council.

Table 20 Comparison of representation

Council	Representation (population / Councillor)
Leeton Council	1,226
Narrandera Council	655
Merged	2,117 or 1,693 ²⁰

The two councils wished to explore if it was possible to have an equal number of elected representatives from each former area in a merged council, at least for a transitional period. The intention was to alleviate any concerns about a loss of representation for Narrandera residents. There are limited options available under the current legislation for achieving this parity which is not surprising as Narrandera residents and voters are significantly outnumbered by Leeton residents and voters. There are however some possibilities for negotiating an appropriate outcome with the State Government in the event of a merger.

The following table identifies the relative positions of the two councils over a range of characteristics related to elected representation:

Table 21 Current representation situation

	Leeton Shire Council	Narrandera Shire Council
Population	11,500	6,100
Proportion of joint area	65%	35%
Current Number of Councillors	9	9
Wards or Undivided	Undivided	Undivided
Number of electors	7,357	4,148
Electors / Population	64%	68%

²⁰ Based on either 8 or 10 councillors, the modelling assumed 10 councillors

	Leeton Shire Council	Narrandera Shire Council
Votes cast	5,598 (2012 by-election)	3,679 (2008)
Turnout ratio	76%	88%
Proportion of joint area	60%	40%
Population Representation ratio (population per councillor)	1,277	677
Elector Representation ratio (electors per councillor)	817	460

The restrictions of the current legislation make it impossible to design an effective ward system for the merged council that will ensure that both of the current council areas are represented equally given the disproportionate scale of the two populations. Which as noted is not unexpected. However, by using as far as is possible the allowed 10% variation in ward elector populations, it is possible to model the best case outcome utilising the existing provisions. This maximum variation of 10% allows wards to be plus or minus 5% of the average.

Based on there being 11,500 electors within the combined area, 7,355 of whom reside within the existing Leeton boundaries and the balance of 4,145 within the existing Narrandera boundaries, we have modelled a possible 4 or 3 ward system, as follows.

Table 22 Possible four ward division

Four Ward Division	Ward 1	Ward 2	Ward 3	Ward 4
Even numbers of electors	2,875	2,875	2,875	2,875
Narrandera ward at -5%	2,731			
Shared ward (51% electors from Narrandera, 49% from Leeton) at -5%		2,731		
Leeton wards at +5%			3,019	3,019

Under this scenarios it is expected that if there were two councillors per ward that Narrandera might reasonably expect to be represented with at least three of the ten councillors.

Table 23 Possible three ward division

Three Ward Division	Ward 1	Ward 2	Ward 3
Even numbers of electors	3,833	3,833	3,833
Narrandera ward at -5%	3,642		
Shared ward (4% electors from Narrandera, 96% from Leeton) at -5%		4,024	
Leeton wards at +5%			4,024

Under this scenarios it is expected that if there were three councillors per ward that Narrandera might reasonably expect to be represented with at least three of the nine councillors.

However, it would seem to be highly likely that an election for an undivided Leeton/Narrandera council would yield a range of councillors approximately proportionate to the populations of the two areas.

An alternative approach is that in the event of an amalgamation, the Local Government Act has provisions (Section 218C) providing for proclamations relating to the representative structure of any new area. Such a proclamation can provide for the continuation in office of 'any or all' of the councillors of area dissolved through the merger. On this basis, nominated councillors from each former council area could continue in office through the proclamation. This may well be limited to one term only and the lack of an election may be of concern. Such an approach would need to be agreed with the Office of Local Government.

4.3.6 Organisation alignment

4.3.6.1 Policy alignment

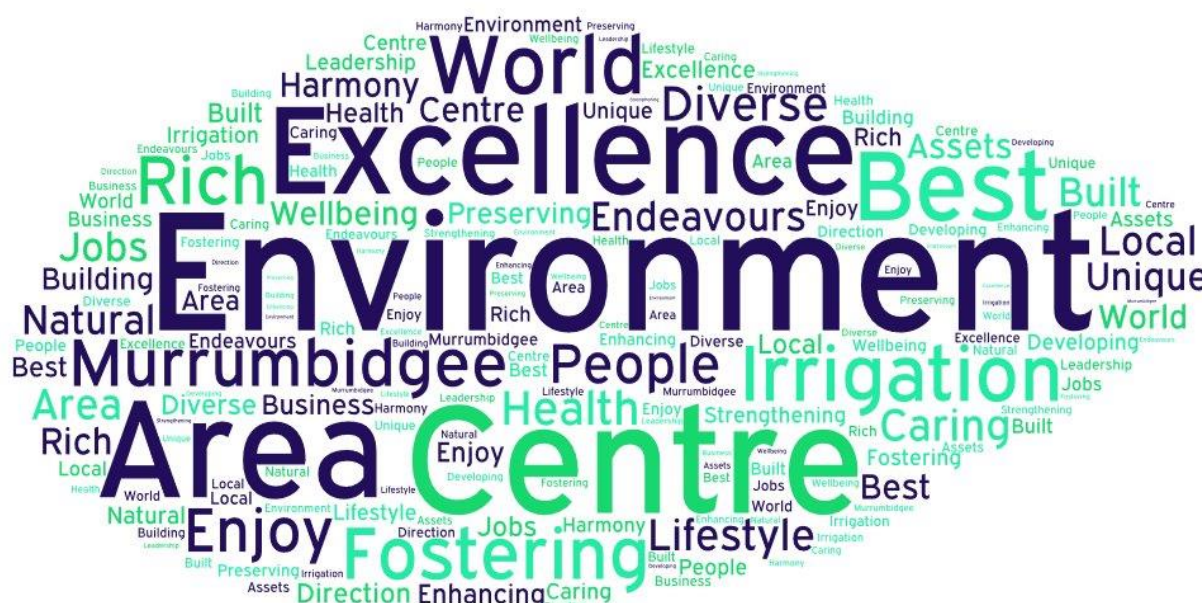
A high level analysis of the vision and key directions in the Community Strategic Plans identifies the areas of relative emphasis for each council area (Appendix D)

Leeton and Narrandera councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas. Both have brief vision statements and elaborate on these with a series of focus areas around which their Community Strategic Plans have been created. Whilst there are minor differences in the expression of their themes and the accentuation of specific thematic components, there is a strong consistency and commonality in the foundations of the two CSPs.

In general terms, the themes address priority areas including community strength and wellbeing, the natural environment, the local economy and employment, infrastructure and the built environment and strong and effective governance.

The comparison is presented visually below through Word Clouds in the figures below.

Figure 12 Summary of Leeton Community Strategic Plan





Communities

The Leeton and Narrandera are quite different communities although they maintain a common bond as neighbours in the Riverina area and there is undoubtedly social and economic cross over between each community.

Leeton's Community Strategic Plan has includes a range of social/community service priorities in addition to the normal range of core local government functions. Narrandera focuses more on traditional core rural services. The plans are clearly reflective of the differences in community aspirations of each community. Leeton places emphasis on Councils leadership role, delivering services and the built environment while Narrandera places more of an emphasis on strong sustainable communities being efficient, effective, responsive and trusted. Both communities place priority on:

- sustainable environments
- local economies and employment opportunities

We noted that neither Council has recently surveyed community perceptions of Council performance and are therefore unable to draw any conclusions about each Council's relationship with its community.

Corporate Organisations

Both organisations are structured very differently. Leeton operates a four directorate model while Narrandera has two deputy general managers. To work well this latter model requires the deputy general managers to remain focused on strategy and leadership with any technical role being very limited. Accordingly managers below the deputy general managers must be more technically capable. Leeton's four directorate model recognises the importance of community service activities and as span of control is slightly smaller, directors are able to take a more hands on role if required. As a result it is likely different corporate organisational cultures exist.

Workforce sizes of the two Councils are very similar although the Leeton workforce serves twice the resident population, while Narrandera's area is almost four times larger. These differences are likely to contribute to different organisational practises, behaviours and even performance i.e. due to larger travel times in Narrandera.

Organisational size can also impact on culture in a range of ways, such as diversity of skills and workforce characteristics, level of specialisation vs multifunctional roles, capacity to undertake a greater range of functions and services, and partnership and advocacy capacity with other levels of government.

The following table shows some key differences and similarities between the workforces.

	Leeton	Narrandera
FTE (including vacancies)	138	129
Percentage of employee costs allocated to training	1.9%	1.0%
Total annual employee cost (\$000) per FTE	\$67	\$60
Total annual expense (\$000) per FTE	\$168	\$151

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assess each of the councils approach to staff development.

Leeton spends around the recommended industry average on training and development, while Narrandera invests around half of this.

The annual employee costs, per employee are similar. Variances can be due in part to salaries and wages but is also as a result of the organisational structure and type of roles the Council has. Organisations whose costs vary substantially can prove more problematic to merge as harmonisation issues can impact on relationships and behaviours.

A crude indicator of staff productivity can be the portion of the operating costs spent per staff member. Both Councils are again similar. While we identify this as an indicator we do not recommend taking these figures at face value as they can be influenced by factors such as the maturity of the workforce and the fluctuating nature of total expenditure year on year and capital projects. Ideally they should be compared over time.

The Council's Workforce Plans identify common strategic issues; a shrinking national workforce pool, being an attractive employer, ageing workforces, skill shortages and recruitment and retention as major challenges for which the Councils have strategies. Both workforces have a reasonable gender balance, while 60% of Narrandera's workforce is over 45 compared to 44% for Leeton. Narrandera's workforce makes up 10% of employment in the LGA. The Narrandera workforce plan identifies its preferred organisational culture as positive, vibrant, responsive, inclusive, engaged and empowered. The plan also identifies strategies to achieve develop this culture.

We consider there are enough differences that these are likely to have an impact on corporate culture when merging into single organisation. Any merger plan must have a strategy that specifically addresses organisational culture.

Corporate values

Councils will naturally take a different approach to developing their own corporate culture but generally each is underpinned by a set of organisational values.

Neither organisation publishes their corporate values but in various plans both Councils promote strong leadership as a foundation of responsive local government.

In any event Councils would have a relatively common set of corporate values that are heavily influenced by the public nature of their role and service focus.

Corporate Policies

A review of the policy registers can identify some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils. While policies change from time to time they can both reflect and influence the organisational culture which is tasked with implementing them.

A desktop review of both Councils policies shows that each has an extensive range of policies that cover mostly traditional government functions and responsibilities. This suggests that the regulatory priorities and approach of both Councils is similar.

4.3.7 Financials

The estimated costs and savings of a merger of the two councils have been modelled with the results set out below.

Tables 24 and 25 provide a summary, narrative and financials of the costs and savings of the merger with the detailed assumptions set out in Appendix B. The NPV of the costs and savings is set out in Table 26. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where both council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs (2016). Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Table 27 then summarises the overall financial performance of the merged council with the Fit for the Future Indicators set out later in section 4.3.9.

Table 24 High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with Senior Staff Harmonisation	Reduction in total costs of Senior Staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts	Savings from Procurement and network level decisions over asset expenditure		Savings from Procurement and network level decisions over asset expenditure Savings from moving to large regional waste contract		Savings from Procurement and network level decisions over asset expenditure	Savings from Procurement and network level decisions over asset expenditure
IT	Significant costs to move to combined IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets		Rationalisation of plant and fleet		Rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 25 Summary of financial costs and savings ²¹²²

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Governance		141	145	150	154	159	164	168	174
Staff									
-Redundancies		-303			-259				
-Staff cost changes		133	507	874	1,162	850	512	148	-244
IT									
-Transition costs		-3,000	-1,000						
-Long term benefits							492	507	522
Materials and Contracts		118	121	125	248	256	263	271	279
Assets									
-Plant and fleet					1,616				
-Buildings									
Grants and Government Contributions		5,000							
Transitional Costs									
-Transitional body		-1,625							
- Rebranding		-750							
Total		-286	-227	1,149	2,922	1,264	,431	1,094	730

The NPV of the costs and benefits over the period being modelled (2023²³) has been calculated and set out below and indicates that there would be a financial benefit to the two councils and their communities from the merger.

²¹ The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments

²² Costs are shown as negative figures, benefits as positive

²³ 2023 is the period being modelled to match the time covered by both council LTFPs

Table 26 Summary of financial costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
\$6.3 million	\$5.3 million	\$4.5 million

The benefit should be seen in the context of the time over which they arise (2016 -2023), the operating performance of the merged council (poor) and the asset funding gap identified later in this report.

While the merged council has a number efficiencies modelled in over the short, medium and longer term the short term costs arising from the merger and the redundancy costs that arise in the medium term are not overcome by benefits in the medium and longer term and as a result the financial performance remains poor throughout the period being modelled.

As shown in Table 27 the merged council only produces a positive operating result (excluding grants and contributions for capital purposes) once over the entire period being modelled in the year when excess plant is modelled as being sold.

Table 27 Summary of financial impacts of merger

Selected Councils Combined LTFP - 2014/15 Extrapolated		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
		(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Operating Results												
Income Statement		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Source: Council Financial Statements and Long Term Financial Plan		(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Rates & Annual Charges		12,126	12,657	13,183	13,578	13,986	14,405	14,838	15,283	15,741	16,213	16,700
User Fees & Charges		4,385	4,548	4,931	5,064	5,201	5,341	5,486	5,634	5,786	5,942	6,102
Grants & Contributions - Operations		11,773	8,287	13,853	18,628	13,942	14,263	14,591	14,926	15,269	15,621	15,980
Grants & Contributions for Capital		5,716	2,221	358	352	360	369	377	386	395	404	413
Interest and Investment Income		1,000	921	770	680	680	680	680	680	680	680	680
Gains from disposal assets		49	237	12	12	12	12	1,629	13	13	14	14
Other Income		1,286	1,247	898	883	904	925	946	968	990	1,013	1,036
Total Income		36,335	30,118	34,005	39,198	35,085	35,995	38,545	37,889	38,874	39,886	40,925
Income excl Gains/losses		36,286	29,881	33,993	39,187	35,073	35,982	36,916	37,876	38,861	39,872	40,911
Income excl Gains/losses & Capital Grants		30,570	27,660	33,635	38,834	34,712	35,614	36,539	37,490	38,466	39,468	40,498
Expenses												
Borrowing Costs		16	59	193	140	122	104	86	66	45	27	11
Employee Benefits		12,448	12,737	15,064	15,779	15,636	15,797	16,318	16,951	17,891	18,883	19,931
Gains & losses on disposal		21	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation		10,216	8,570	8,677	8,937	9,205	9,482	9,766	10,059	10,361	10,672	10,992
All other Expenses		10,994	10,260	10,370	15,797	11,735	11,057	11,269	11,607	11,464	11,808	12,162
Total Expenses		33,695	31,626	34,304	40,653	36,698	36,440	37,439	38,683	39,760	41,389	43,096
Operating Result		2,640	- 1,508	- 299	- 1,455	- 1,614	- 446	1,106	- 794	- 886	- 1,504	- 2,171
Operating Result before grants & contributions for capital purposes		- 3,076	- 3,729	- 657	- 1,807	- 1,974	- 814	729	- 1,180	- 1,281	- 1,907	- 2,584

4.3.7.1 Rates

Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners. As a starting point the current rates for the two councils are set out below highlighting the existing differences as well as the different approaches.

The total rates take for each council is very similar as are the average rates paid.

Table 28 Comparison of total and average rating revenue

Rating Revenue	Leeton Council	Narrandera Council
Total	\$6.60m	\$4.48m
Average Residential rate	\$861	\$608
Average Business rate	\$1,127	\$1,071
Average Farmland Rate	\$3,349	\$3,100
Average rates	\$1,263	\$1,245

While the average rates paid per property across each council area is similar, there are some differences when each category of types of rates is considered.

Figure 14 Current average rate (2014 - 15)

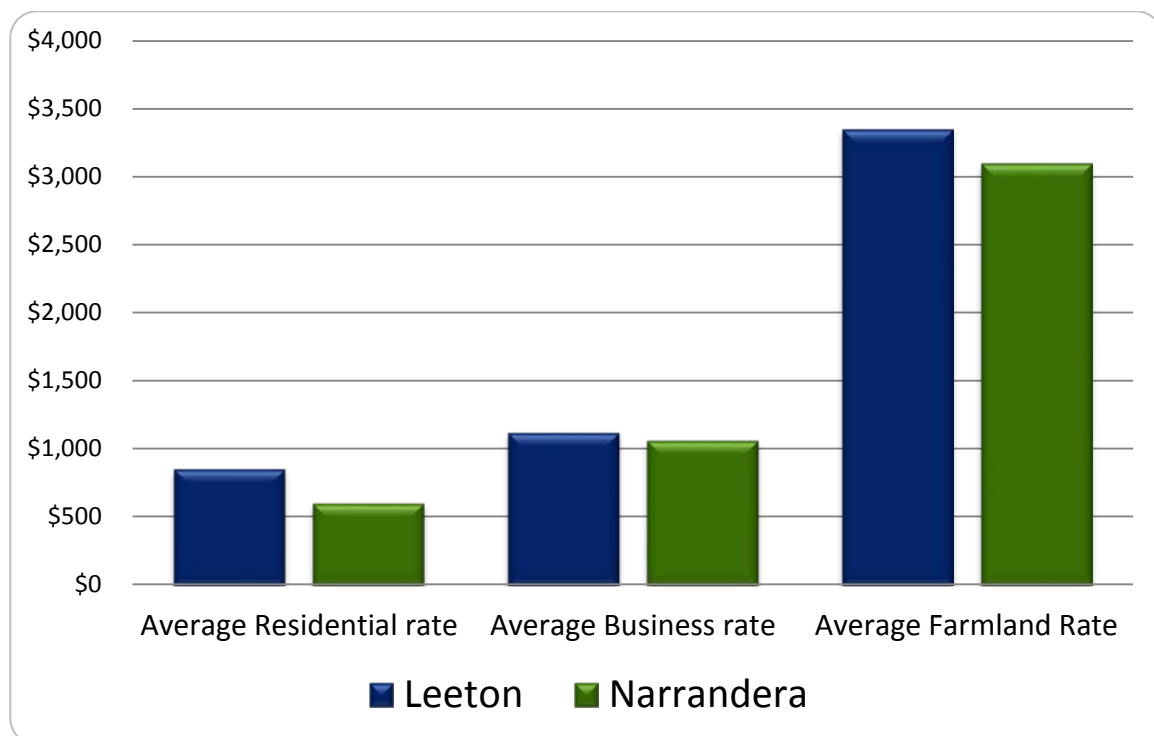


Table 29 Comparison of proportion of rates

Proportion of rates	Leeton Council	Narrandera Council
Residential	51%	32%
Business	8%	9%
Farmland	40%	59%

The two councils draw the majority of their rates on a percentage basis from different residential, business and farmland, which is reflective of the differing natures of their communities and economies. Proportionally, Narrandera draws more of its rating base from farmland, while Leeton has a larger residential base.

In order to provide information on what the potential impact of a merger on rates would be, representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the two councils. In each scenario the total rates (residential, business or farmland) are apportioned across the two councils consistently. Scenario 1 is entirely ad valorem and Scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg change in rate (2.3% for 2014) there would be significant changes in rates across the two councils arising from a merger. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as a percentage change.

Figure 15 Impact on average residential rates

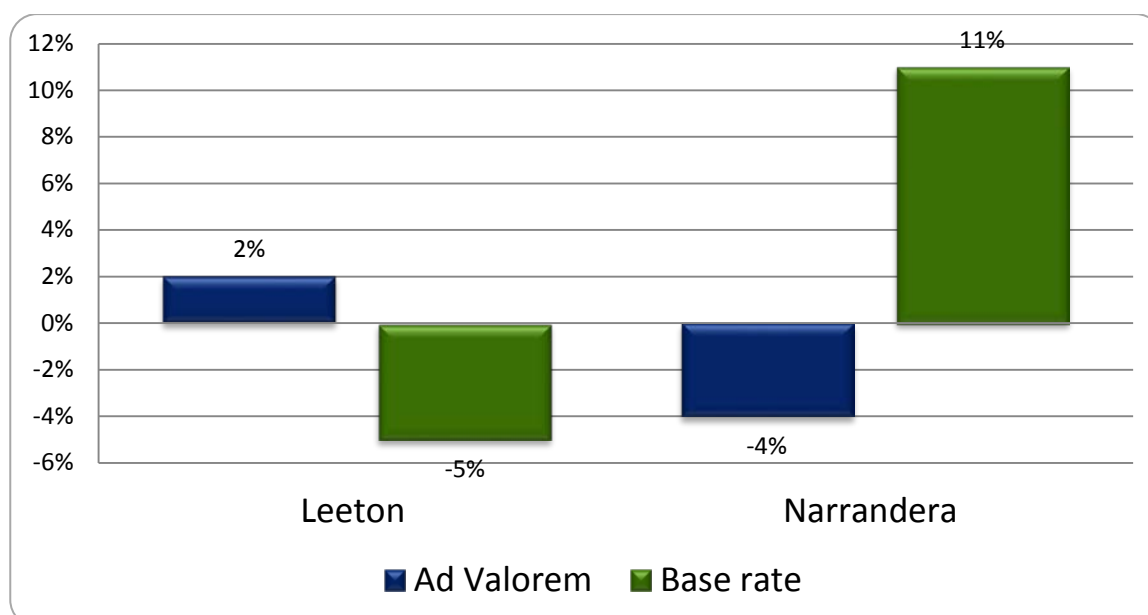


Figure 16 Impact on average business rates

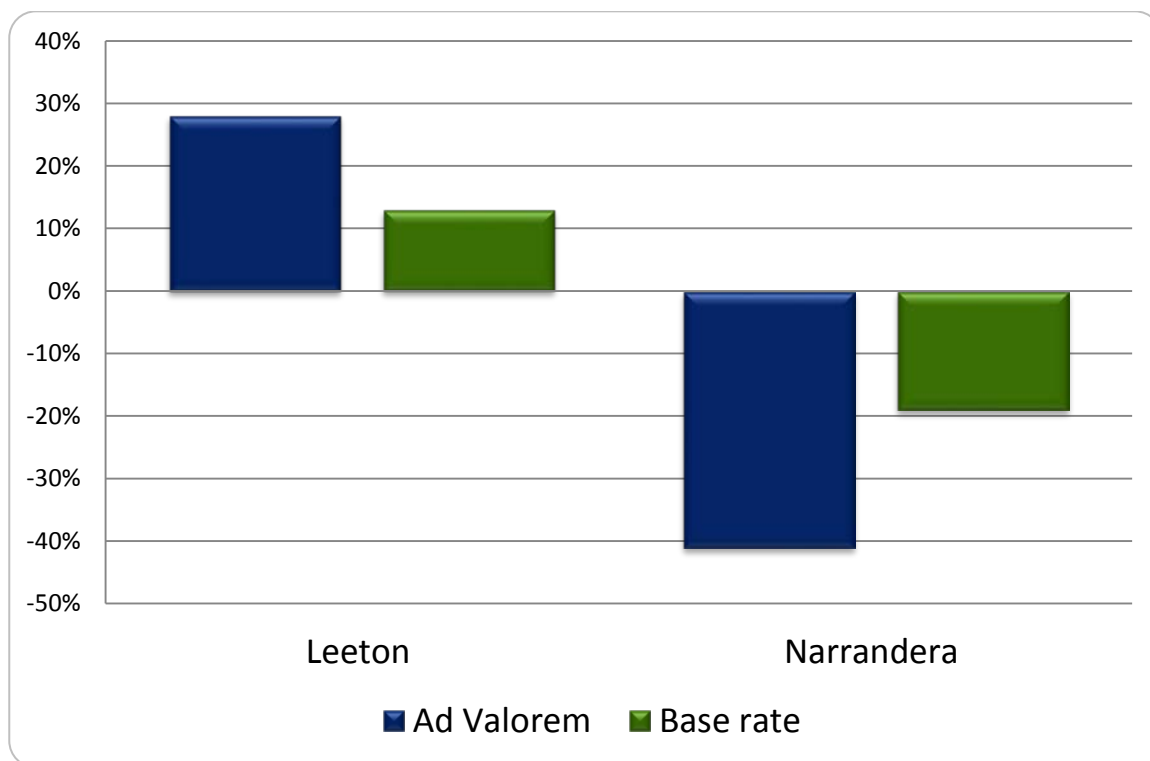
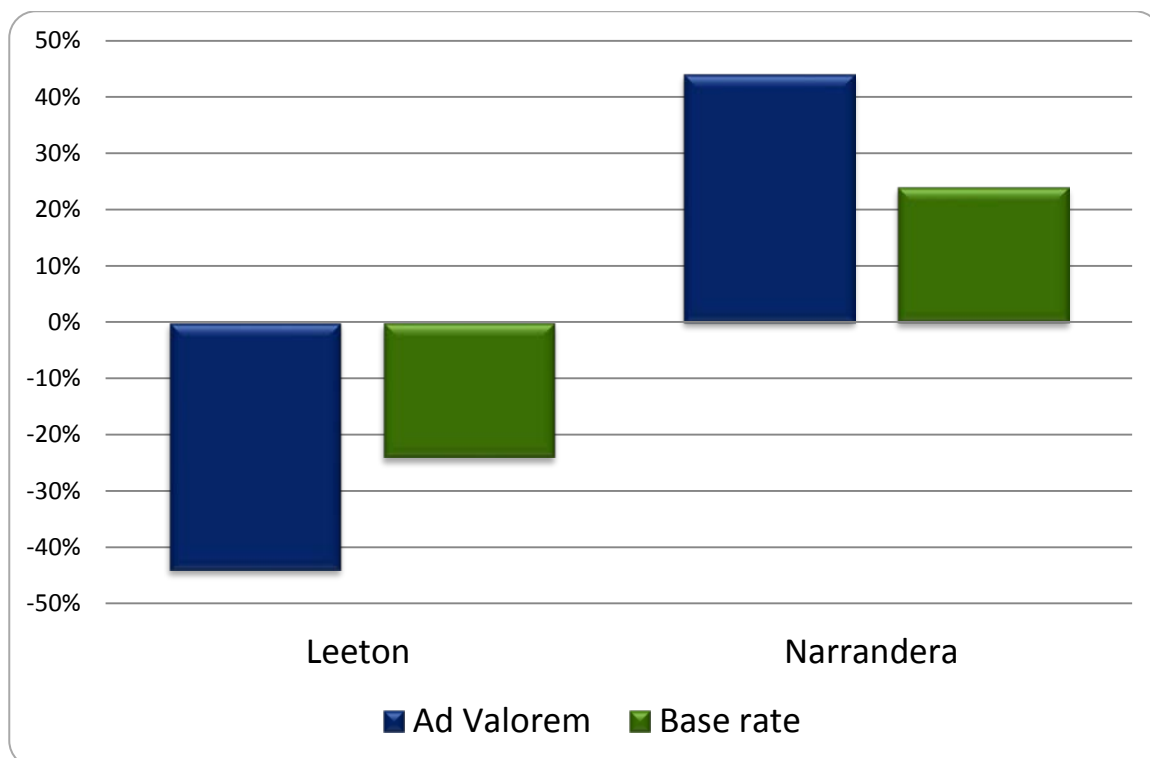


Figure 17 Impact on average farmland rates



4.3.7.2 Debt

Both councils carry low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks debt servicing ratios, as does the merged council. There is also reasonable comparability across the councils meaning that neither community would be disadvantaged by carrying the debt of the other.

Table 30 Comparison of debt

Council	Debt (\$000)	Debt Service Ratio	Debt per Capita (\$)
Leeton Council	\$1,369	0.9%	\$123.14
Narrandera Council	\$699	0.1%	\$102.05
Combined	\$2,068	0.6%	\$115.10

4.3.8 Scale and capacity

Scale

Scale has not been defined by either the Independent Review Panel or the Office of Local Government. The government has asked each council to begin with the recommendation proposed by the Independent Review Panel as that is considered to be the appropriate scale and capacity for the council.

On the basis that the independent panel recommendation proposed that the two councils merge, it can be assumed that a merged council would achieve the scale and capacity requirements.

Capacity

The panel report articulated the Key Elements of Strategic Capacity as follows.²⁴

²⁴ Box 8, Page 32 of Revitalising Local Government

Figure 18 Scale and capacity

Box 8: Key Elements of Strategic Capacity	
<ul style="list-style-type: none"> More robust revenue base and increased discretionary spending Scope to undertake new functions and major projects Ability to employ wider range of skilled staff Knowledge, creativity and innovation Advanced skills in strategic planning and policy development Effective regional collaboration Credibility for more effective advocacy Capable partner for State and federal agencies Resources to cope with complex and unexpected change High quality political and managerial leadership. 	

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that in a strict application of capacity each council on its own does not meet the capacity elements because each council was put into a potential merger group by the Independent Review Panel. We have also noted the extent to which there is any real change from the status quo when the criteria is compared to a single council.

Any change from the status quo will arise more for Narrandera given the comparatively small population. However as the merger only reaches a council size of 17,500 people (with declining population) governing a large rural area, in our view there is little overall change from the status quo to the merged council when considered against these criteria.

Table 31 Scale and capacity in the merged councils

Criteria	Merged Council	Degree of change
More robust revenue base and increased discretionary spending	Yes	Limited change
Scope to undertake new functions and major projects	Yes	Limited change
Ability to employ wider range of skilled staff	Yes	Limited change
Knowledge, creativity and innovation	Yes	Limited change
Effective regional collaboration	Yes	Limited change
Credibility for more effective advocacy	Yes	Limited change
Capable partner for state and federal agencies	Yes	Limited change
Resources to cope with complex and unexpected change	Yes	Limited change
High quality political and managerial leadership	Yes	No change

4.3.9 Indicators

A merged council would meet two of the indicators from day one; Debt Service Cover and Asset Maintenance Ratios.

Of the other indicators:

- The Operating Performance ratio improves steadily from a low of -8.4% at the time of the merger until 2020 when it gets to 2.7% before starting to decline again.
- The Own Source Revenue almost achieves the benchmark requirement of 60%, averaging 59.6% for the years from 2019 onwards
- The Asset Renewals ratio peaks at around 67.5% in 2016 before falling back to an average of 60.6% from 2018 onwards, well below the required benchmark of 100%
- The Infrastructure Backlog rises consistently from 6.8% towards 16.9% by the end of the modelling period, remaining well above the 2% benchmark
- The Real Operating Expenditure shows a steady increase across all the years modelled.

Table 32 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Does not meet the benchmark	Almost meets the benchmark from 2019
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Meets the benchmark	Meets the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark	Does not meet the benchmark

Figure 19 Merged council operating performance ratio

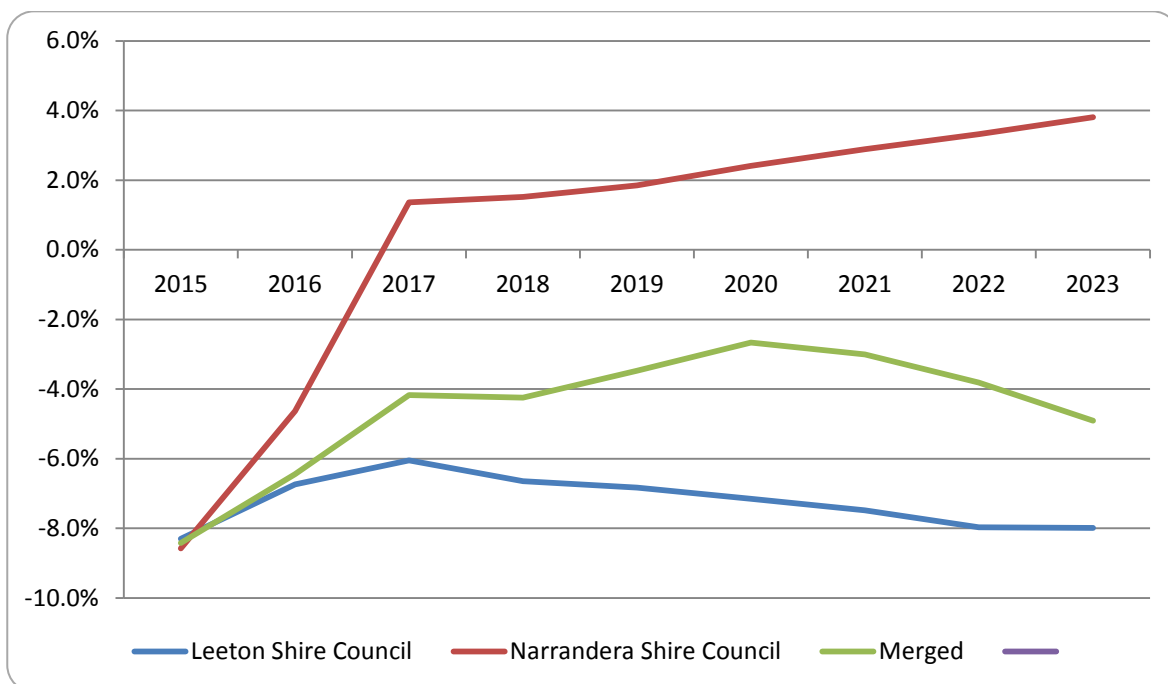


Figure 20 Merged council own source revenue

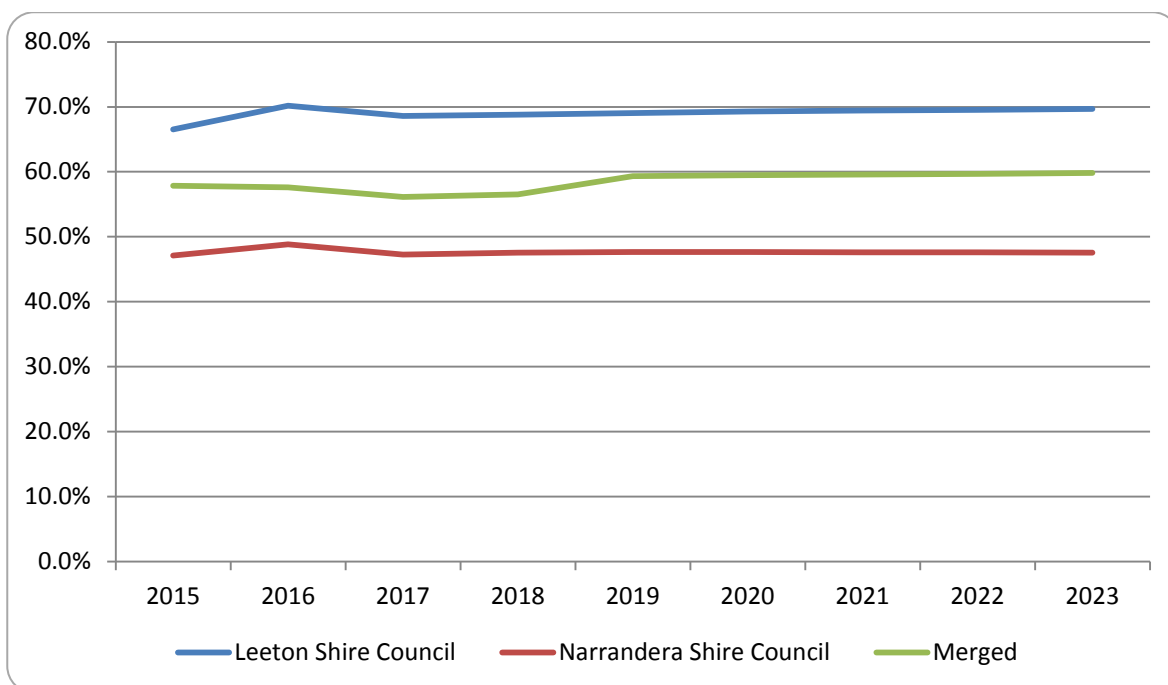


Figure 21 Merged council debt service ratio

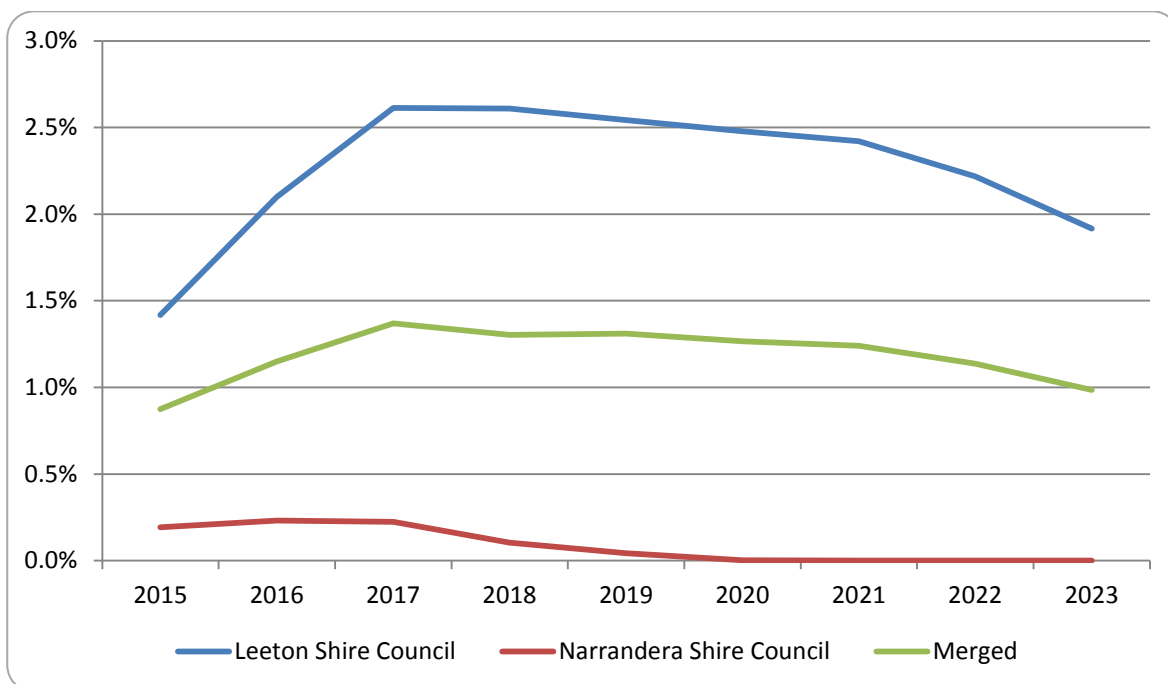


Figure 22 Merged council asset renewal ratio

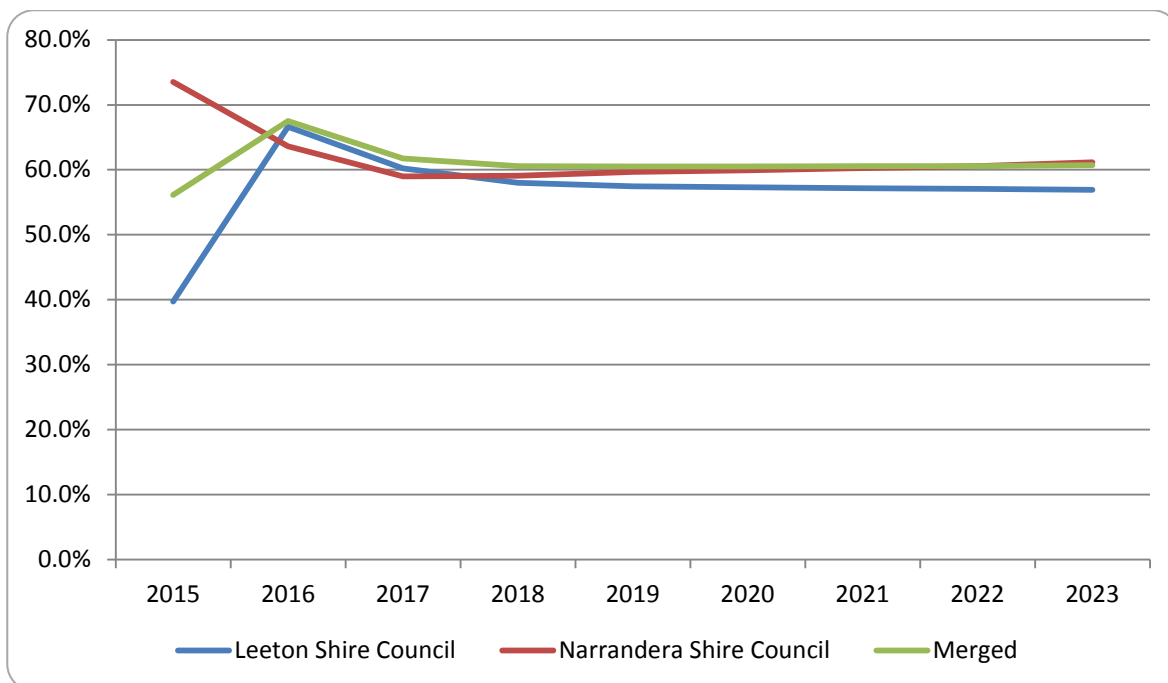


Figure 23 Merged council infrastructure backlog ratio

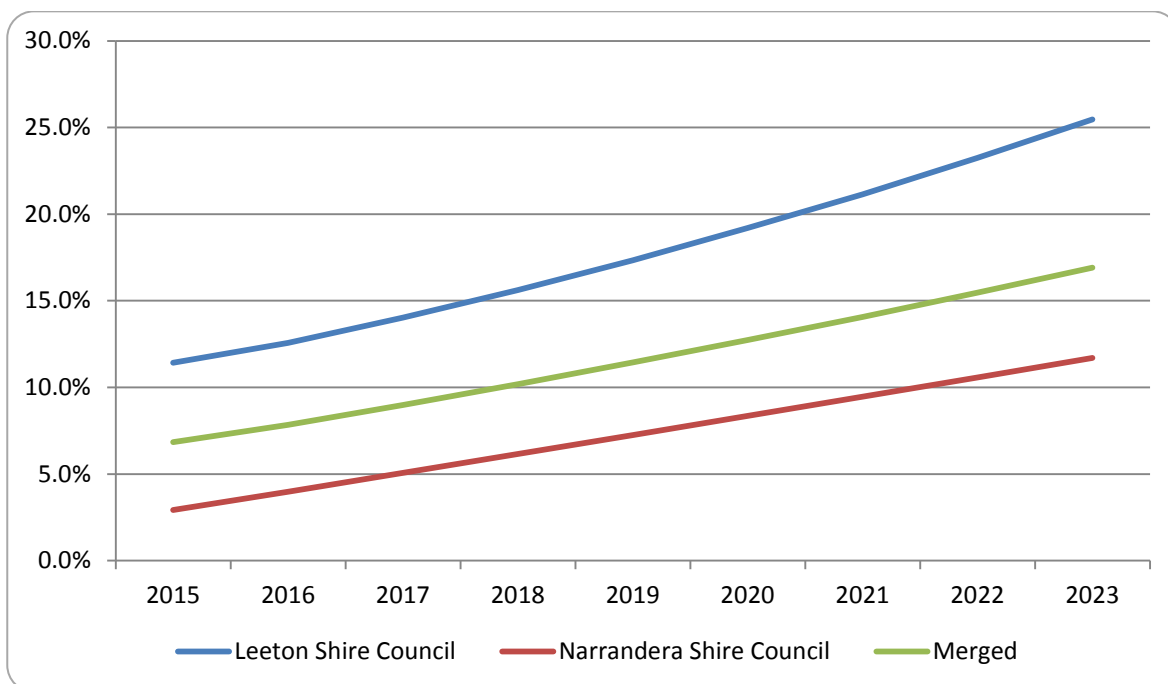


Figure 24 Merged council asset maintenance ratio

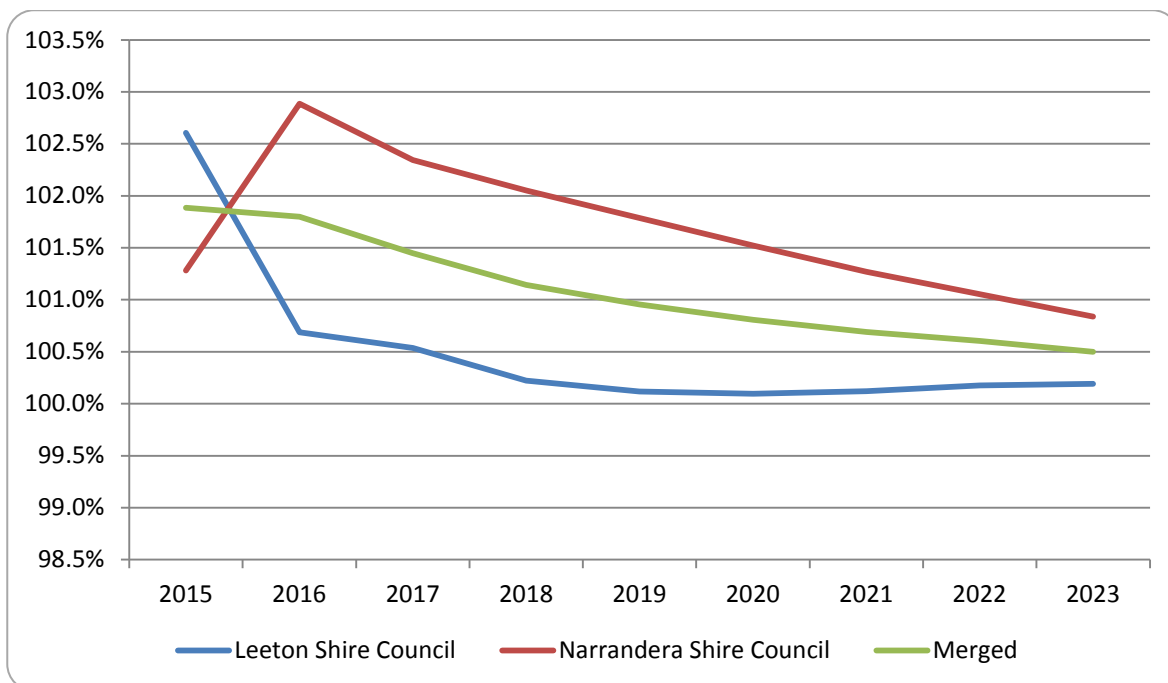
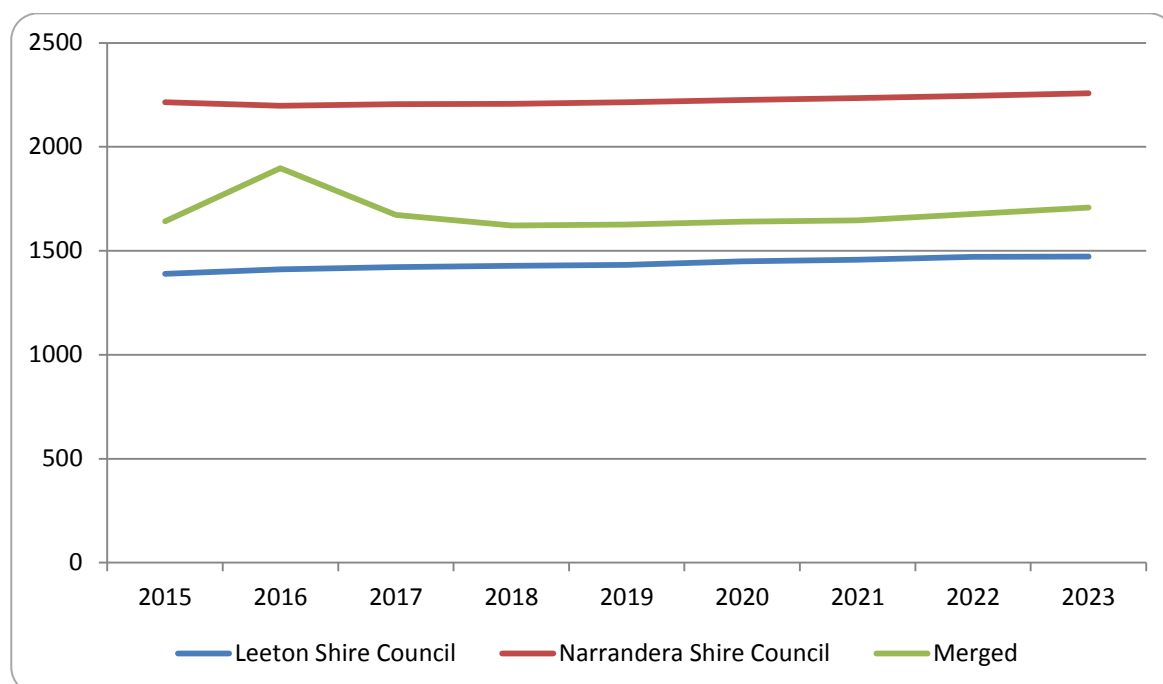


Figure 25 Merged council real operating expenditure



4.3.9.1 Asset Maintenance

The same approach to the calculation of required annual maintenance used for each individual council was applied to a merged council to identify what, if any, gap in maintenance expenditure would exist. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets.

In the case of the merged council, there is no gap with the actual annual maintenance figures exceeding the estimated requirements. Given that both councils individually met this benchmark, it is expected that the merged council would as well.

For simplicity, the figures in the table below are presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 33 Merged council asset maintenance funding gap

Council	Actual Annual Maintenance (\$000)	Estimated Required Maintenance (\$000)	Gap (\$000)
Merged Council	4,908	4,869	39

4.3.9.2 Asset Renewal

The required annual renewal expenditure for the merged council is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

For simplicity, this is presented as an average of the years projected in each council's LTTP while the model projects actual expenditure year by year.

Table 34 Merged council asset renewal funding gap

Council	Average predicted annual renewals (\$000)	Average required annual renewals (\$000)	Gap (\$000)
Merged Council	4,516	7,450	-2,934

We have then calculated what the merged council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years and set that out in the table below.

For simplicity, this is presented as an average of the years projected in each council's LTTP while the model projects actual expenditure year by year.

Table 35 Merged council infrastructure backlog funding gap

Council	Cost to satisfactory (\$000)	Target Backlog (\$000)	Reduction Required (\$000)	Per year (5 years) (\$000)
Merged Council	20,101	5,126	-14,975	-2,995

4.3.9.3 Funding shortfall

Table 36 Merged council asset funding gap

Council	Asset Maintenance (\$000)	Renewals (\$000)	Infrastructure Backlog (\$000)	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Merged Council	39	-2,934	-2,995	-5,890	-2,895

4.3.10 Operating Performance

The operating result of the merged council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTTP.

Table 37 Operating performance funding gap

Council	Gap (\$000)
Merged Council	-1,352

4.3.11 Costs and Savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition from two councils into one there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the merger continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term, although the reduction is a small one. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council but again these are modest. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and some rationalisation of plant (one off).

The operating performance of the merged council (excluding grants and contributions for capital purposes) is negative in every year of the period being modelled. The NPV of the costs and savings over the period being modelled (2023²⁵) has been calculated and set out below and identifies a net cost to the councils and community arising from the merger.

Table 38 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
\$6.3 million	\$5.3 million	\$4.5 million

4.3.12 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in,

²⁵ 2023 is the period being modelled to match the time covered by both council LTFPs

form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

In the case of Leeton and Narrandera the impact of section 218CA of the Local Government Act also creates risks to successfully bringing together the two workforces. This section of the Act relates to the maintenance of staff in rural centres and provides that a council must ensure that the number of regular staff of the council employed at a rural centre of 5,000 people or less is, as far as is reasonably practicable, maintenance at not less than the same level of regular staff as were employed by the previous council at the centre immediately before amalgamation.

The impact on the merger will be to require the merged council to maintain a workforce in Narrandera (and other small centres) at the same size as they are currently unless the Council can show that it is not reasonably practicable. The perception may therefore be that the reduction in staff numbers as proposed under this merger business case can only occur in Leeton. While this is not the case as the reduction can and would occur from any location, any reduction in staff numbers at Narrandera would have to be offset by moving staff to Narrandera to satisfy the requirements of 218CA. The section also embeds into the Council's operations an inefficiency from having a large proportion of the workforce based in Narrandera in perpetuity.

Equally there is also a risk from the loss of any employment in Narrandera and the flow on impacts across the community.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

By not standardising the calculation of the infrastructure backlog and the asset maintenance ratio there is a risk to each council of not fully understanding the condition or each other's networks. Also arising from the process of the merger business case is that neither council's water and sewer assets have been the subject of analysis.

5. CONCLUSIONS

The government has made it clear that the starting point for every council is scale and capacity. Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other.

Individually, each Council achieves only some of the governments Fit for the Future benchmarks.

5.1 Meeting the benchmarks

In order to meet the Fit for the Future benchmarks each of the councils requires an increase in revenue and/or a decrease in costs to address both an operating deficit (as judged against the Operating Performance Ratio criteria) and short and longer term infrastructure issues.

Noting that the merged council would meet the asset maintenance ratio benchmark, the table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset renewal ratio and bringing the infrastructure backlog²⁶ to the benchmark of 2% within five years. After that the funding gap diminishes for each council in order to satisfy only the renewals and maintenance ratios.

Table 39 Summary of infrastructure funding gap

Council	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Leeton Council	-4,050	-1,761
Narrandera Council	-1,584	-1,335

The table below identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFP. Narrandera Council shows an operating surplus while Leeton will need to address a funding gap in order to meet the benchmark.

Table 40 Operating performance funding gap

Council	Average gap (\$000)
Leeton Council	-1,410
Narrandera Council	458

5.2 Merged council

5.2.1 Scale and capacity

Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other. While either council could make an argument that they can meet the scale and capacity tests, councils need to do so

²⁶ Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

recognising the stated government position which runs contrary to that. In this case it may be difficult for either, given the size of each council and the population served, to meet the government's test around capacity on their own.

5.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial position of each council directly contributes to the overall asset and financial position of the merged council.

The asset focus of the Fit for the Future benchmarks means that like the individual councils, the merged council does not meet all of the asset related benchmarks. While a merged council would meet the asset maintenance ratio benchmark, a funding gap in order to address the asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 41 Merged council asset funding gap

Council	Average funding required per annum (5 years) (\$000)	Average funding required per annum (5 years+) (\$000)
Merged Council	-5,890	-2,895

The transitional costs identified throughout this report and the financial performance of the two councils combined means the operating performance ratio is negative from day one and while some efficiency benefits have been modelled in arising through the merger these are not sufficient to improve the financial performance of the council.

The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to stay relatively stagnant and well below the required benchmark for the Operating Performance ratio which steadily increases over the period modelled.

A merged council would meet two of the indicators from day one; Debt Service Cover and Asset Maintenance Ratios.

Of the other indicators:

- The Operating Performance ratio improves steadily from a low of -8.4% at the time of the merger until 2020 when it gets to 2.7% before starting to decline again.
- The Own Source Revenue almost achieves the benchmark requirement of 60%, averaging 59.6% for the years from 2019 onwards
- The Asset Renewals ratio peaks at around 67.5% in 2016 before falling back to an average of 60.6% from 2018 onwards, well below the required benchmark of 100%
- The Infrastructure Backlog rises consistently from 6.8% towards 16.9% by the end of the modelling period, remaining well above the 2% benchmark
- The Real Operating Expenditure shows a steady increase across all the years modelled

Table 42 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Does not meet the benchmark	Almost meets the benchmark from 2019
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Meets the benchmark	Meets the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark	Does not meet the benchmark

5.2.3 Debt

Both councils carry low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks debt servicing ratios, as does the merged council.

5.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property.

Changes to the average business, residential and farmland rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the table below.

Table 43 Merged council modelled rating impacts

	Leeton (ad valorem)	Leeton (base rate)	Narrandera (ad valorem)	Narrandera (base rate)
Residential	+2%	-5%	-4%	+11%
Business	+28%	+13%	-41%	-19%
Farmland	-44%	-24%	+44%	+24%

5.2.5 Environment and Community Aspirations

The comparison of the community strategic plans highlighted the environment as a common theme with both Councils having well developed aims around the protection of the natural environment. Narrandera Council has a particular aim to conserve environmental heritage while Leeton seeks to identify, protect, conserve and enhance Leeton's natural assets and to promote ecologically sustainable development as well as aiming to identify and protect Leeton's built and cultural heritage assets for future generations.

In respect to growth Narrandera seeks to support ongoing agricultural activity as the mainstay of the local economy and provide for a range of facilities and services to meet the needs of residents while Leeton seeks to preserve rural land, minimise land use conflict and environmental impacts and promote sustainable growth, housing choice and social service equity.

Both councils provide flexibility in their residential zones, allowing for a wide variety of uses and different dwelling types.

5.2.6 Representation

Assuming a merged council had either eight or ten councillors, compared to the present nine each for Leeton and Narrandera Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Narrandera. A possible four or three ward based electoral system has been modelled that would provide a level of representation across the merged council reflective of the populations in each area although further work would be needed on this to confirm it is possible under the current electoral provisions.

5.2.7 Community profile and communities of interest

The Local Government Areas of Leeton and Narrandera have some similar features, and some differences, many of which reflect the different natures of the areas, Narrandera being a smaller rural shire, with Leeton a larger and more urbanised area.

Both areas have similar age profiles, with low adult retention and a high ratio of children to adults, though Leeton has a lower proportion of elderly residents. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

Leeton has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, slightly higher labour force participation and incomes, and lower unemployment. Both LGAs are in a cluster of areas with low wealth, mainly from properties and businesses with fairly high liabilities.

Studies of cross-border movements do not reveal high levels of interdependency between Leeton and Narrandera. Leeton has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

5.2.8 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a “no forced redundancies” position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

APPENDIX A FIT FOR THE FUTURE BENCHMARKS²⁷

Operating Performance Ratio

*Total continuing operating revenue (exc. capital grants and contributions)
less operating expenses*

Total continuing operating revenue (exc. capital grants and contributions)

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

Total continuing operating revenue less all grants and contributions

Total continuing operating revenue inclusive of capital grants and contributions

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

²⁷ Office of Local Government Fit for the Future Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\text{Cost of debt service (interest expense \& principal repayments)}}{\text{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\text{Estimated cost to bring assets to a satisfactory condition}}{\text{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B COSTS AND BENEFITS ARISING FROM A MERGER OF THE LEETON AND NARRANDERA COUNCILS – DETAILED ASSUMPTIONS

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplemented with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Queensland Treasury Corporation August 2009 Report

In an August 2009 report²⁸ from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

A net cost outcome in the first local government term is likely as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through:

- *greater efficiency (ie, a reduction in costs through improved economies of scale)*
- *Improved decision making capability, and*
- *Improved capacity to deliver services.*

While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc, while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.

With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (ie, operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's bottom line. This is because local governments, unlike the private sector, are not in the

²⁸ Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

business of making profits. Therefore, it is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations as the benefits will generally be utilised by the amalgamated local government in the provision of services.

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting from amalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low has modelled for a possible merger of Leeton and Narrandera Councils are described below:

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance (\$130K)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on 10 councillors for the new merged council.

1.2 Executive management (\$200K)

The formation of a single entity will result savings in executive management costs as there will only be one General Manager and an assumed executive of three. Savings arising from the reduction in the number of directors is realised in section 3.1 as Tier 2 staff are not senior staff. Revised remuneration packages for the new entity have been informed and assumed to be on par with similar sized councils.

It is important to note that while ongoing efficiencies of \$200k have been identified effective from the short term, there is the one off cost of redundancies of an estimated \$203k that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services Section.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (5 years plus)					

2.1 Rationalisation of duplicate services (\$250K)

Consistent with the dis-establishment of two councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers.

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans, Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The starting point for the assumption underpinning

the efficiency for corporate services was a 35%²⁹ reduction in corporate support personnel based on previous mergers. However, a review of the organisational charts of the two councils means that in this case our view is that there is very limited opportunity for reductions in corporate services and only amount to 3-4 positions. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those outlines above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled on an average of 26 weeks³⁰

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

3.1 Management (\$700K)

The extent of efficiencies for Tier 2, 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out.

On the basis that two councils are being disestablished and a single entity created there is typically opportunity for a reduction in Tier 2 and 3 positions in particular. While on first review the organisational structures appear large there are specific services each offer which contribute to

²⁹ Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

³⁰ The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10 years. An average of 26 weeks has therefore been used throughout the modelling.

that (e.g. Childcare and Teloca House). For the purposes of modelling changes in staff numbers through a merger these activities have been ring-fenced and staff numbers disregarded. Our view is that approximately 8 positions would be disestablished with the remainder being reallocated within the new structure.

3.2 Staff Turnover (\$400K)

While the industry average turnover is approximately 9% and on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency based on applying a modest 2.5% natural attrition.

3.3 ICT Benefits (\$400K)

Without a full investigation into the current state of the two councils ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from two councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%³¹ over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the two councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of \$90 million have estimated the Net Present Value at \$200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of \$500K per annum.

3.4 Materials and contracts (\$150 – 250K)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from two councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement and resource sharing through the various Hunter Councils initiatives.

The increased scale and size of the infrastructure networks managed by the council would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

³¹ Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

3.5 Properties (\$0)

Typically there is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for Council purposes.

However the nature of the two councils, the geography and the limited opportunities to reduce staff numbers means that in our view that no allowance should be made for the rationalisation of buildings.

3.6 Works units

Staff (\$110K)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 10% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet (\$1.6 million – one off)

Based on our experience of reviewing a large number of works units across NSW most councils have significantly more plant and equipment than reasonably required to undertake it day to day functions. Having considered the utilisation rates of the two councils a reduction in plant and fleet in the order of 20% would be achievable should there be an amalgamation of the councils.

4 Services and Service Levels

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together³² and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition).

5 Transition costs

The formation of the new entity from the current state of two councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.³³ for the proposed Wellington reorganisation.

³² Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

³³ Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

Governance	<ul style="list-style-type: none"> • Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	<ul style="list-style-type: none"> • Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required
Finance and Treasury	<ul style="list-style-type: none"> • Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	<ul style="list-style-type: none"> • Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	<ul style="list-style-type: none"> • Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	<ul style="list-style-type: none"> • Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	<ul style="list-style-type: none"> • Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1

Planning Services	<ul style="list-style-type: none"> Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	<ul style="list-style-type: none"> Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place Ensuring that business as usual is able to continue with minimum impact to customers from Day 1 and beyond
Customer Services	<ul style="list-style-type: none"> Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond Ensuring no customer service system failures on Day 1 and beyond Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	<ul style="list-style-type: none"> Ensuring that the new entity continues to provide community services and facilities Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1 Transition body (\$2.25 million)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at \$36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as \$20.6 million³⁴ including an assessment of the merger costs for the three rural councils of the Wairarapa. Queensland Treasury Corporation also identified a cost for both establishing corporate office accommodation and external contracts to handle the additional workload of creating and implanting the new Council structure of approximately \$750,000 in 2009.

On the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the councils is \$2.25 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

³⁴ Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

5.2 ICT (\$4 million)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. Two approaches were considered; the first being the costs to transition the new council to a single system(s) across the board. The second was to take a 'best of breed approach' and use the best existing systems and migrate data across.

The significant costs involved in the first option mean that it is not considered appropriate for a merger of Narrandera and Leeton. Comparatively the costs remain high for the second option as well as the difficulties in migrating data and working through system capabilities etc will still incur costs. Given the respective size of the councils and the populations they serve in the context of the studies cited it is considered that the most likely costs are in the region of \$5 million.

The estimated cost are spread across the initial years of the councils operations with the majority falling in the first two years.

5.3 Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the two existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Branding (\$750K)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the two councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is \$750K based on other amalgamation experience.

5.5 Redundancy Costs (\$300K)

This is based on a reduction in from two general managers to one for a merged council and is based on employment contracts with a redundancy period of 38 weeks, and based on the Councils' respective Annual Reports 2013/14.

5.6 Remuneration Harmonisation (\$435K)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the two councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee

costs for similar councils have been compared to that of the combined councils combined as well as between the two councils.

5.7 Elections

There is a possibility of proportional savings in existing council budgets as instead of two separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the two councils.

APPENDIX C NARRANDERA AND LEETON - PLANNING CONTROLS AROUND NATURAL ENVIRONMENT, BUILT HERITAGE AND APPROACH TO GROWTH AND DEVELOPMENT

The following is based on overarching aims of applicable planning instruments as an indication of:

- protection of the natural environment
- protection of the built environment and built heritage
- general approach to growth and development

	Natural	Built	Approach to Growth
Leeton (Leeton LEP 2014)	<p>Emphasis on natural environment</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> • <i>to identify, protect, conserve and enhance Leeton's natural assets</i> • <i>to promote ecologically sustainable development</i> 	<p>Emphasis on built heritage</p> <p>The particular aim of the LEP which relates to the protection of built heritage is:</p> <ul style="list-style-type: none"> • <i>to identify and protect Leeton's built and cultural heritage assets for future generations</i> 	<p>The aims of the LEP look to preserve rural land, minimise land use conflict and environmental impacts (which can be significant issues on the rural/urban interface) and promote sustainable growth, housing choice and social service equity:</p> <ul style="list-style-type: none"> • <i>to encourage sustainable economic growth and development</i> • <i>to preserve rural land for all forms of primary production</i> • <i>to allow for the equitable provision of social services and facilities for the community</i> • <i>to provide housing choices for the community</i> • <i>to minimise land use conflicts and adverse environmental impacts</i> <p>The LEP contains a range of residential zones allowing significant flexibility in dwelling types, particularly in new development areas, indicating an accommodative approach in support of the economic development of (eg) Leeton township and supporting the smaller settlements in the LGA.</p>

	Natural	Built	Approach to Growth
Narrandera (Narrandera LEP 2013)	<p>Emphasis on natural environment</p> <p>The particular aim of the LEP which relates to the protection of the natural environment is:</p> <ul style="list-style-type: none"> • <i>to conserve environmental heritage</i> 	<p>Emphasis on built heritage</p> <p>There are no specific aims in the LEP which relate to the protection of built heritage.</p>	<p>The aims of the LEP seek to support ongoing agricultural activity as the mainstay of the local economy and provide for a range of facilities and services to meet the needs of residents. The principal residential zone ("Village") allows a wide variety of uses indicating a facilitative approach by Council to development in the urban areas</p> <ul style="list-style-type: none"> • <i>to protect, enhance and conserve agricultural land through the proper management, development and conservation of natural and man-made resources</i> • <i>to encourage a range of housing, employment, recreation and community facilities to meet the needs of existing and future residents of Narrandera</i> • <i>to promote the efficient and equitable provision of public services, infrastructure and amenities</i>

APPENDIX D COMPARISON OF COMMUNITY STRATEGIC PLANS OF THE TWO COUNCILS

Council	Vision	Broader Themes
Leeton	<ul style="list-style-type: none"> That Leeton Shire be the Centre of Excellence within the Murrumbidgee Irrigation Area, fostering world best practices in all its endeavours, ensuring the people of Leeton Shire enjoy a rich and diverse lifestyle in harmony with our unique environment 	<ul style="list-style-type: none"> Caring for our health and wellbeing Enhancing and preserving our natural assets Building our business and local jobs Developing our built environment Strengthening our leadership direction
Narrandera	<ul style="list-style-type: none"> We are a prosperous, diverse and sustainable community, built on a deep sense of trust, care and commitment for each other and our environment. 	<ul style="list-style-type: none"> A strong and resilient community and sustainable environment A growing economy Quality and sustainable infrastructure Efficient and responsive services Trusted and effective Government

Commentary

Leeton and Narrandera councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas. Both have brief vision statements and elaborate on these with a series of focus areas around which their Community Strategic Plans have been created. Whilst there are minor differences in the expression of their themes and the accentuation of specific thematic components, there is a strong consistency and commonality in the foundations of the two CSPs.

In general terms, the themes address priority areas including community strength and wellbeing, the natural environment, the local economy and employment, infrastructure and the built environment and strong and effective governance.

APPENDIX E DETAILED COMMUNITY PROFILE



The Communities of Leeton and Narrandera

March 2015

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1. INTRODUCTION

A desktop review of the communities of the Leeton and Narrandera council areas has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within these areas.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review are ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A Report for the Independent Local Government Review Panel*¹.

2. SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

The Local Government Areas of Leeton and Narrandera have some similar features, and some differences, many of which reflect the different natures of the areas, Narrandera being a smaller rural shire, with Leeton a larger and more urbanised area.

Both areas have similar age profiles, with low adult retention and a high ratio of children to adults, though Leeton has a lower proportion of elderly residents. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

Leeton has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, slightly higher labour force participation and incomes, and lower unemployment. Both LGAs are in a cluster of areas with low wealth, mainly from properties and businesses with fairly high liabilities.

Studies of cross-border movements do not reveal high levels of interdependency between Leeton and Narrandera. Leeton has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

The strategic priorities of each of the communities, as expressed in the Community Strategic Plans, display commonality, with a clear priority around the unique environments of the areas.

¹ National Institute of Economic and Industry Research, March 2013

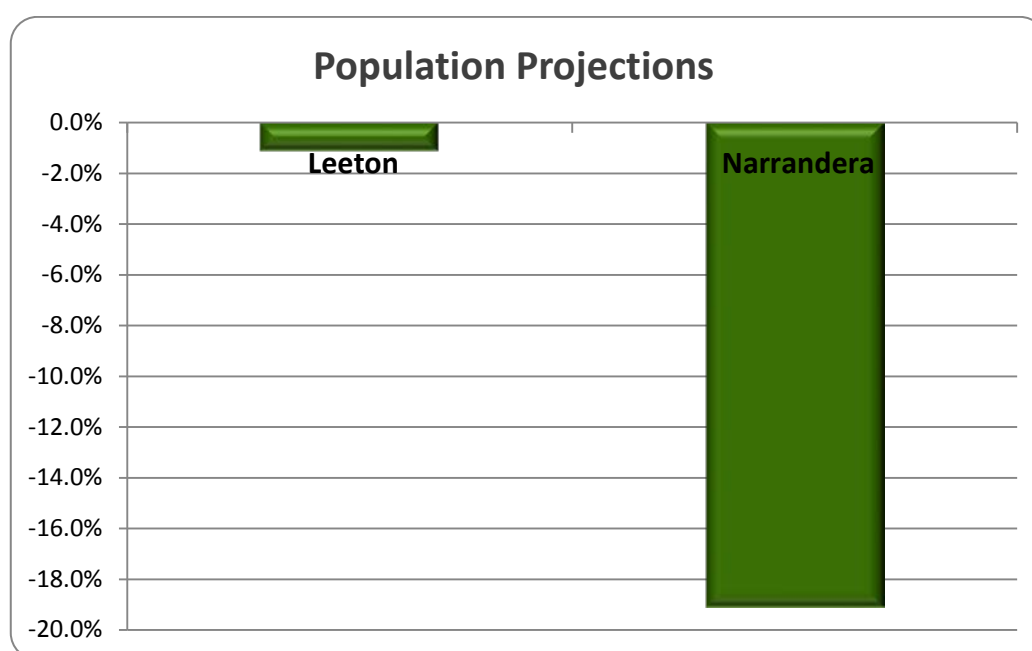
3. POPULATION SUMMARY

3.1 Current Base Information

	Population (ERP 2013)	Land Area (ha)	Population Density (persons per ha)
Leeton	11,037	116,695	0.09
Narrandera	5,902	411,624	0.01

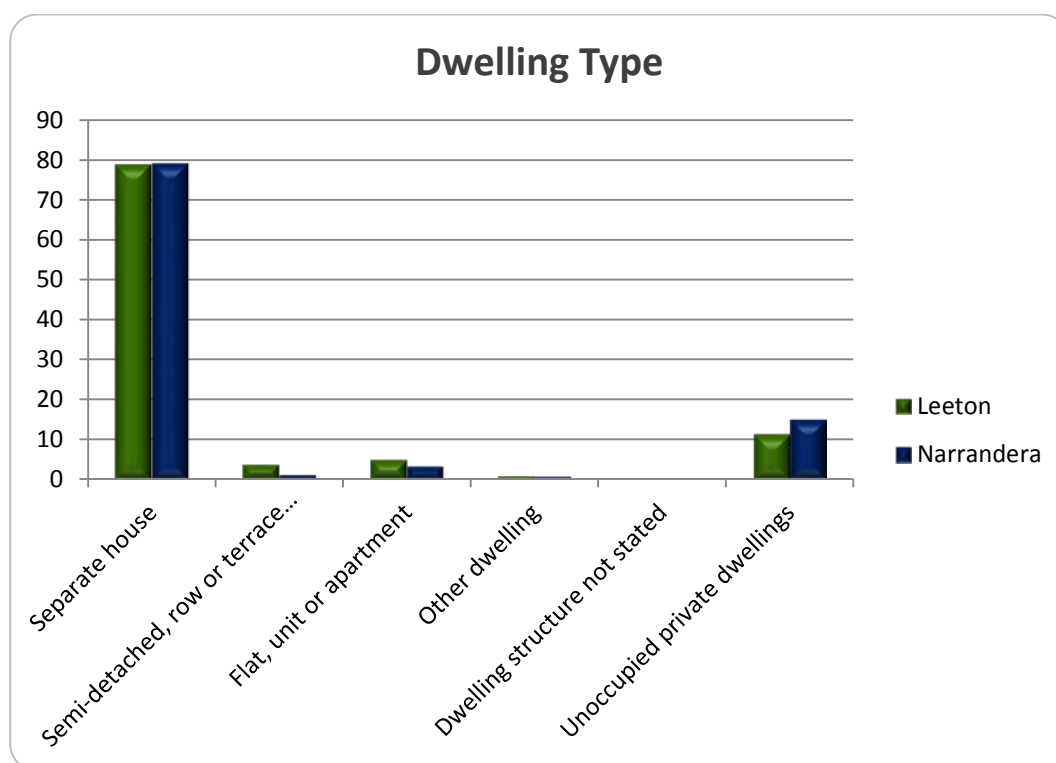
3.2 Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the Leeton and Narrandera areas. Leeton is forecast to see a slight decrease, and Narrandera a significant decrease of almost 20% over the same period.

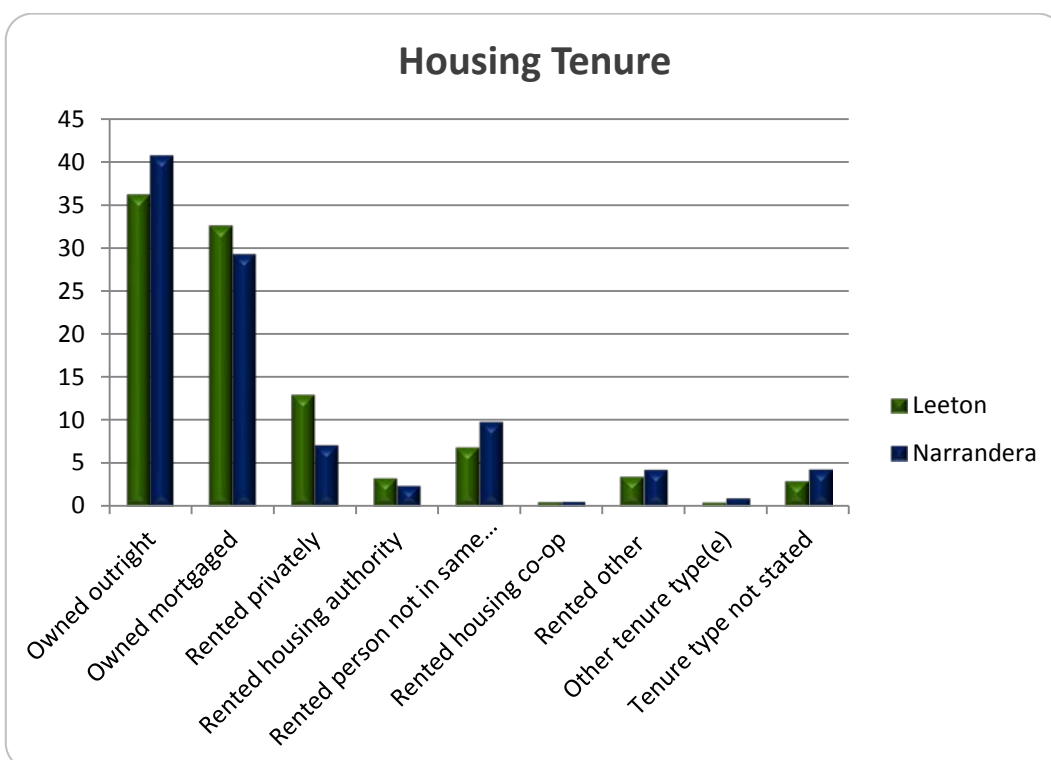


3.3 Dwellings

The two councils are in a cluster of areas which include most of the small-town shires with lowest levels of mobility and tenancy and highest levels of outright home ownership, along with a small mix of caravans.



Both areas are dominated by separate houses and very little medium to high density dwellings.

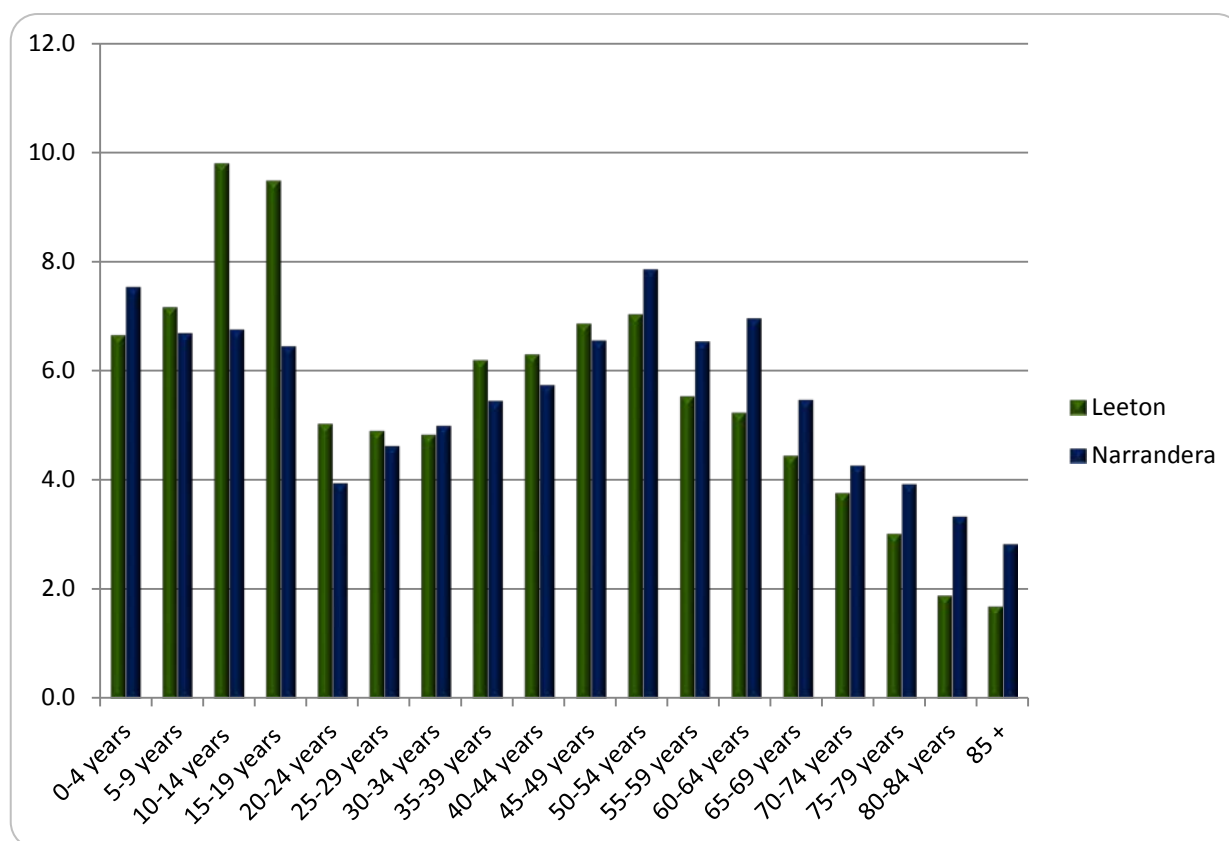


Related to the dwelling types, both areas have a higher proportion of homes owned outright or mortgaged, reflecting its lower proportion of medium and high density dwellings, and a slightly higher proportion of social housing.

3.4 Age Structure

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis clusters Leeton and Narrandera in different groups for age structure, both having high ratios of children to adults of parenting age and low retention of young adults, however Leeton is in a group with a lower proportion of elderly residents.



Compared to each other, Leeton has a higher proportion of teenagers, young adults and adults between 35 and 49. Narrandera's age profile shows higher proportions in all the age groups over 50.

4. CULTURE

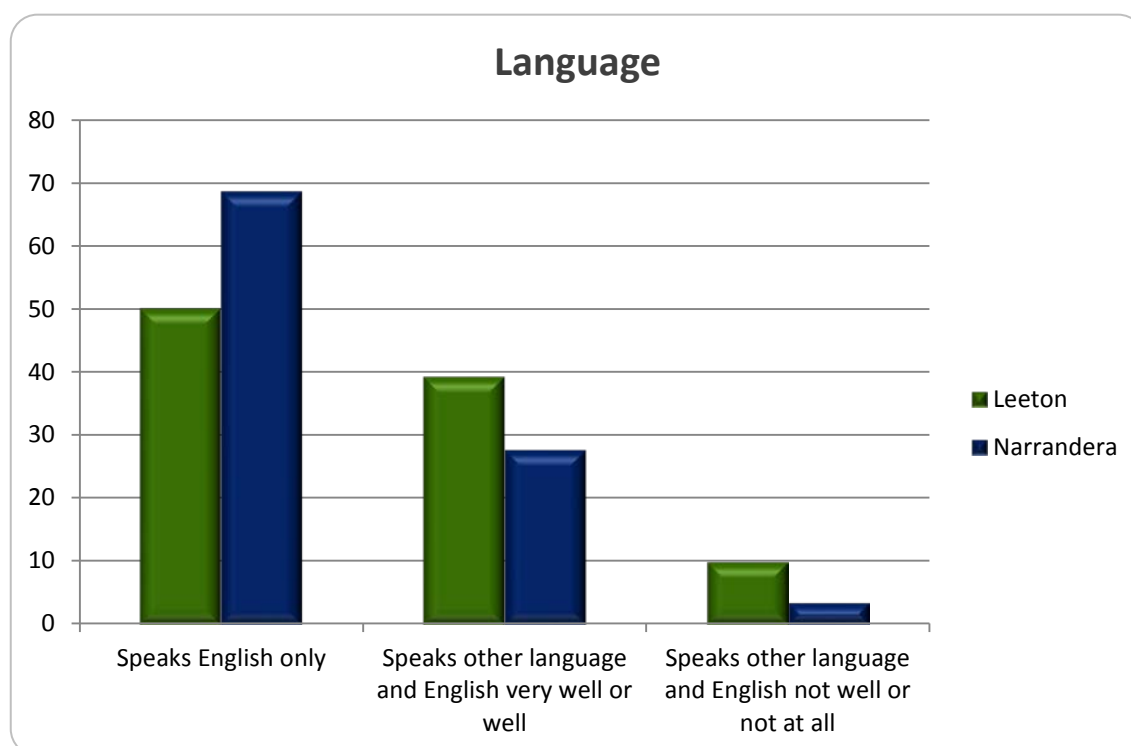
4.1 Birthplace

Leeton is in a cluster of areas with around 90% of residents born in Australia, with the remaining coming mainly from North and Western Europe including the UK. Narrandera is in a cluster of areas where virtually all residents were born in Australia, with little recent migration.

4.2 Religion

Both Leeton and Narrandera are clustered in a group of entirely non-metropolitan areas that are dominated by the mainline protestant denominations.

4.3 Language



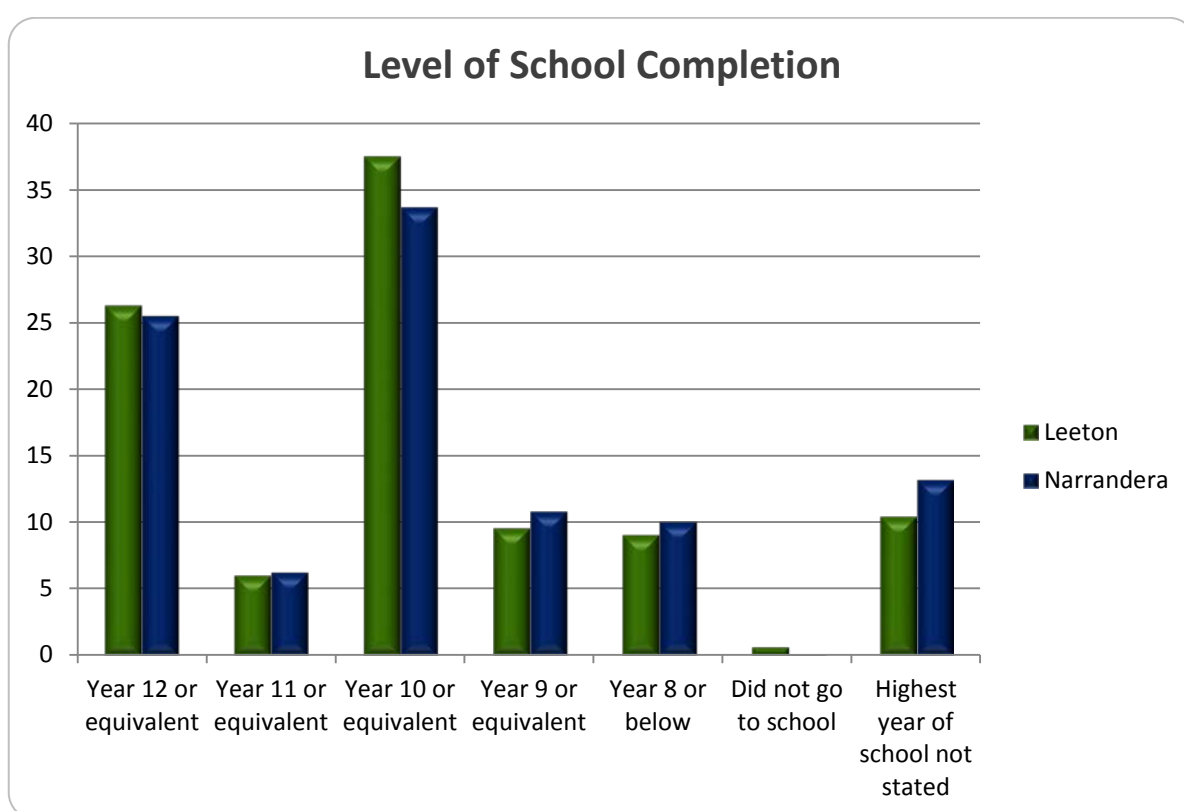
Narrandera has a very high proportion of people who speak English only. Half of Leeton residents speak another language other than English, most very well or well.

5. EDUCATION

The two councils are clustered together in a group of areas characterised by low Year 12 completion, few overseas-born residents and low proportions of professionals coupled with moderate adolescent educational attendance.

5.1 School Completion

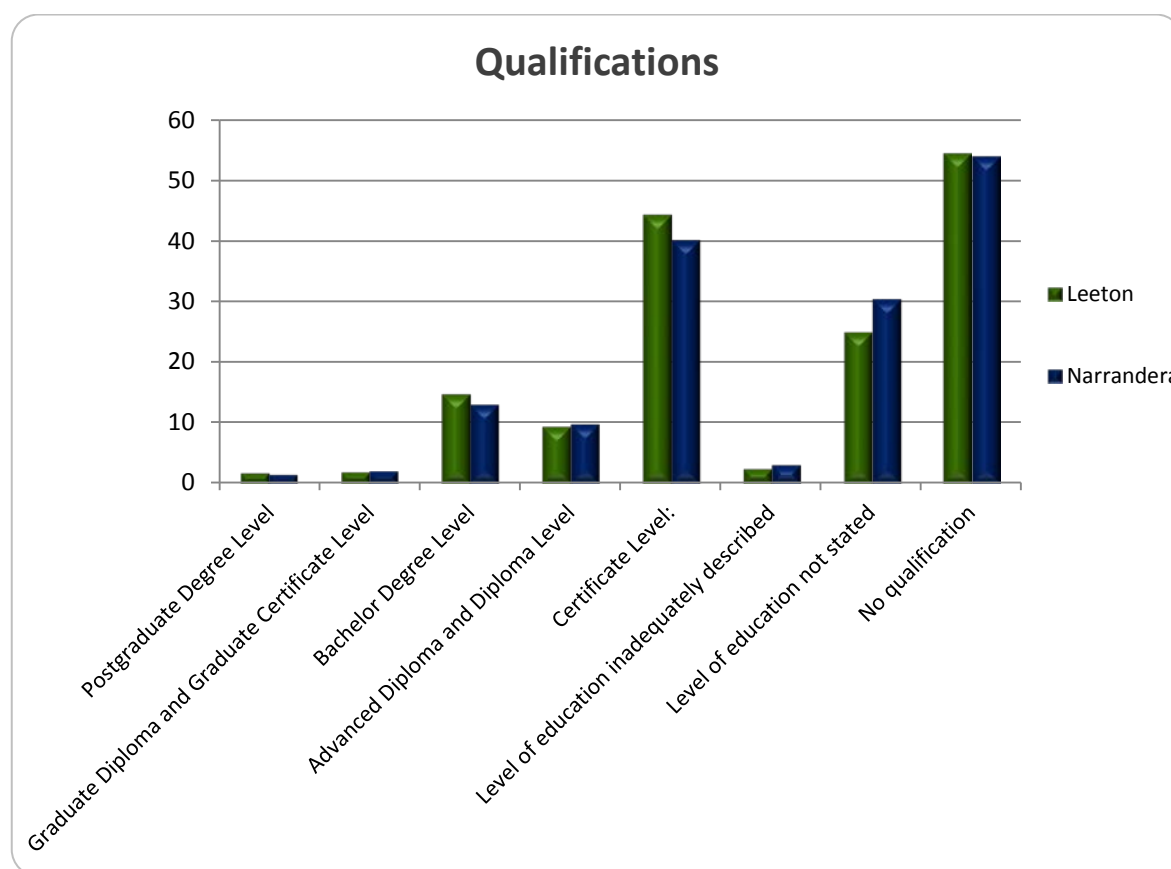
School completion data is a useful indicator of socio-economic status. Combined with educational qualifications it also allows assessment of the skill base of the population.



Leeton and Narrandera have a similar school completion profile, with almost identical rates of Year 12 achievement and Year 11 completion, with slightly more Leeton residents finishing in Year 10.

5.2 Post School Qualifications

Educational qualifications relate to education outside of primary and secondary school and are one of the most important indicators of socio-economic status. With other data sources, such as employment status, income and occupation, an area's educational qualifications help to evaluate the economic opportunities and socio-economic status of the area and identify skill gaps in the labour market.

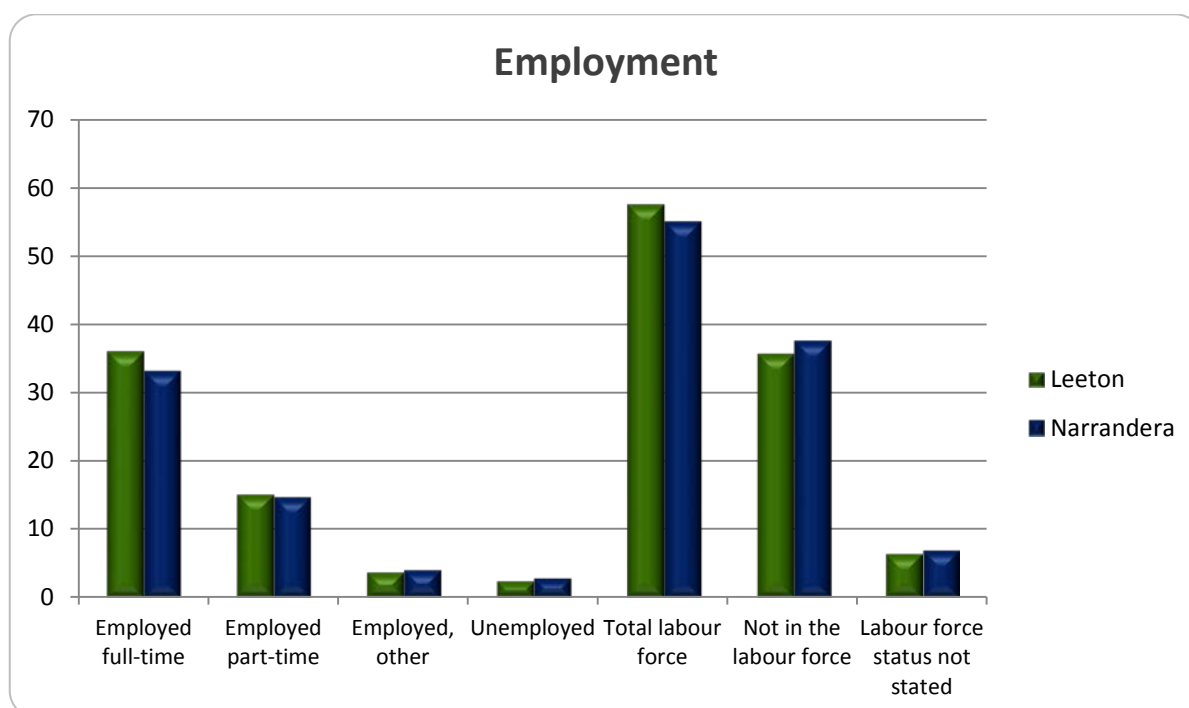


Both Leeton and Narrandera have high rates of residents with no qualifications, followed by vocational qualifications. The rates of university education are relatively low, with slightly more Leeton residents with Bachelor Degrees or above.

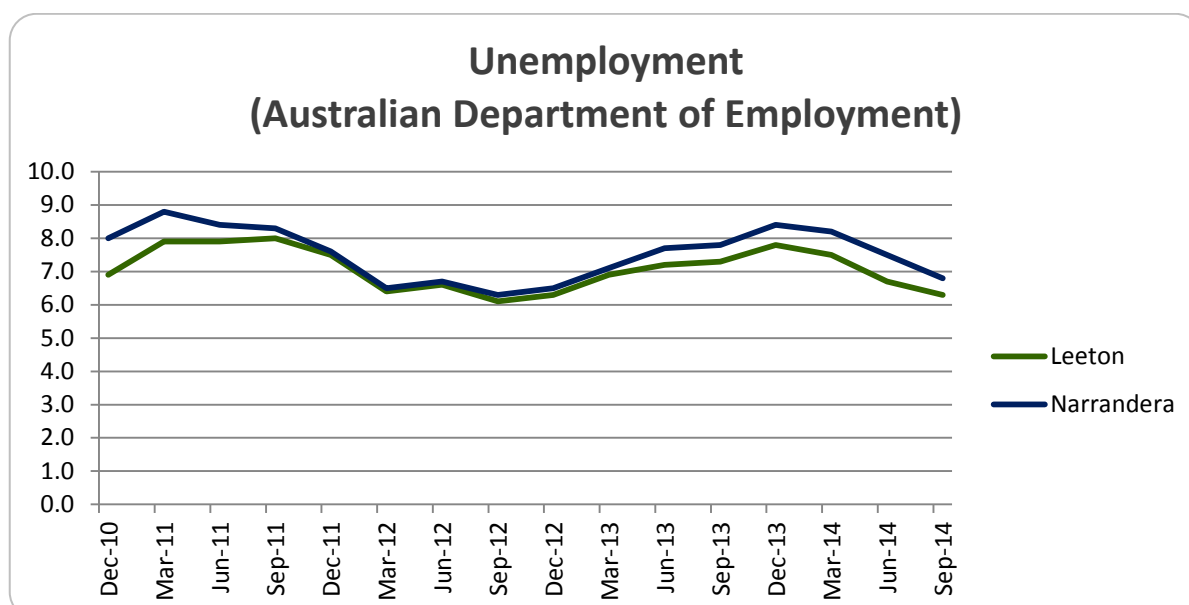
6. LABOUR MARKET

Leeton and Narrandera are in a cluster of areas with moderate unemployment rates and social security take-up. Hours of work are generally lower than other clusters and the FTE employment rate is generally low.

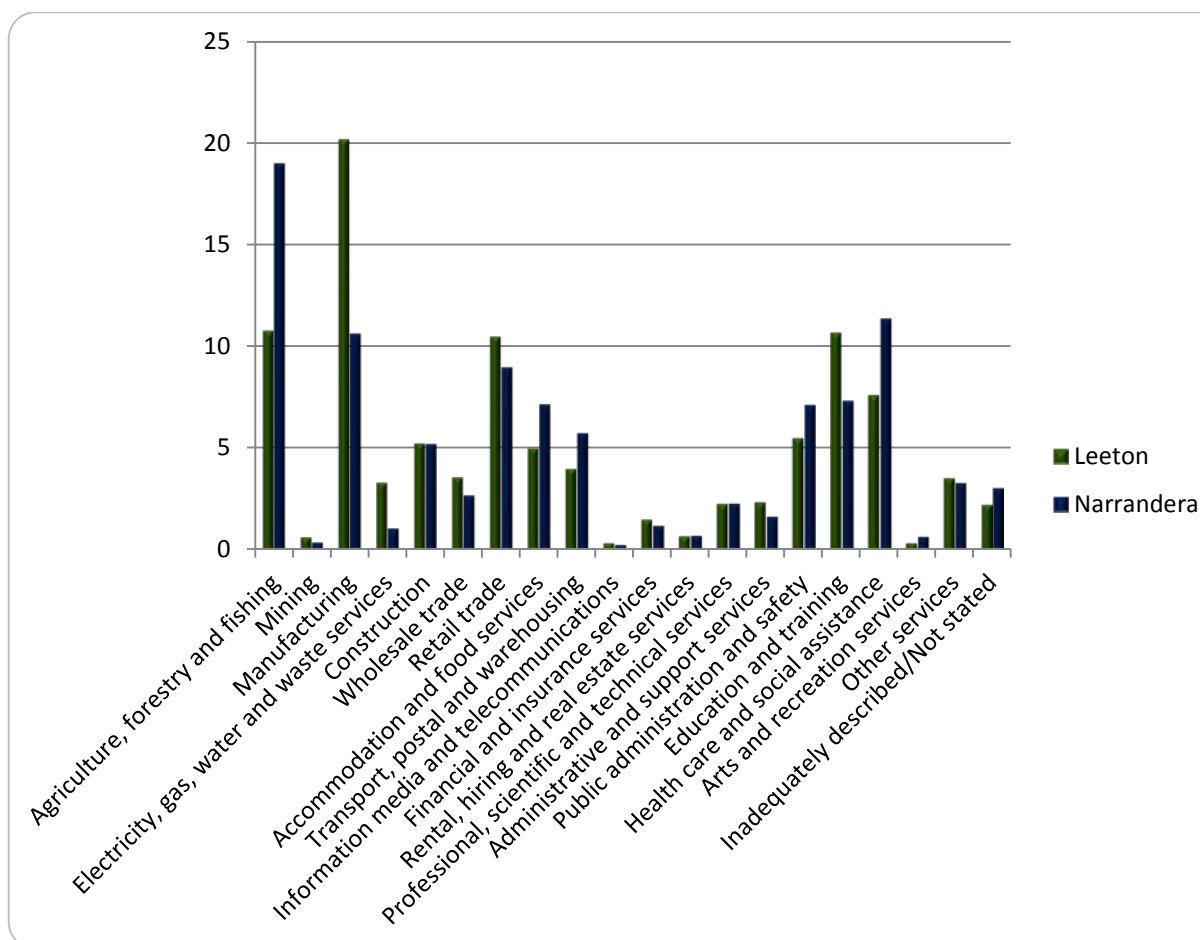
6.1 Employment Status



Leeton and Narrandera have very similar employment profiles, with Leeton having a marginally larger total labour force and people employed full time. Narrandera consistently has a slightly higher unemployment rate.



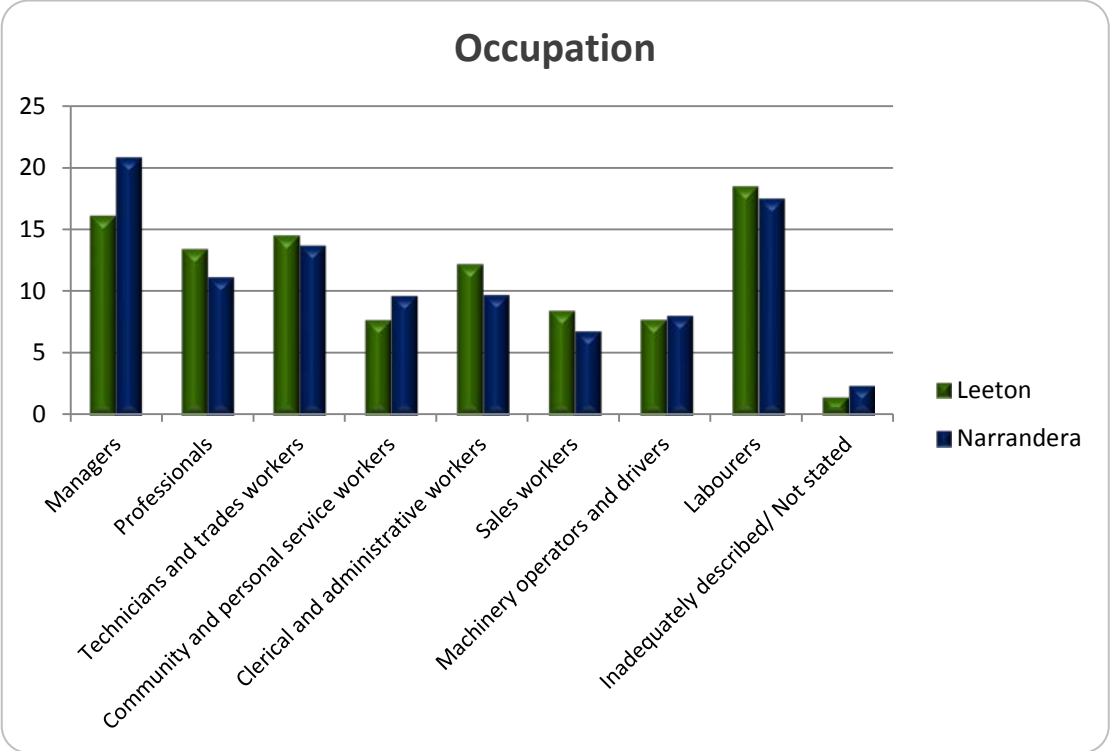
6.2 Industries of Employment



Narrandera's predominant industry of employment is agriculture, followed by health care and social assistance. Manufacturing is the key industry of employment for Leeton residents, followed by education and training and agriculture.

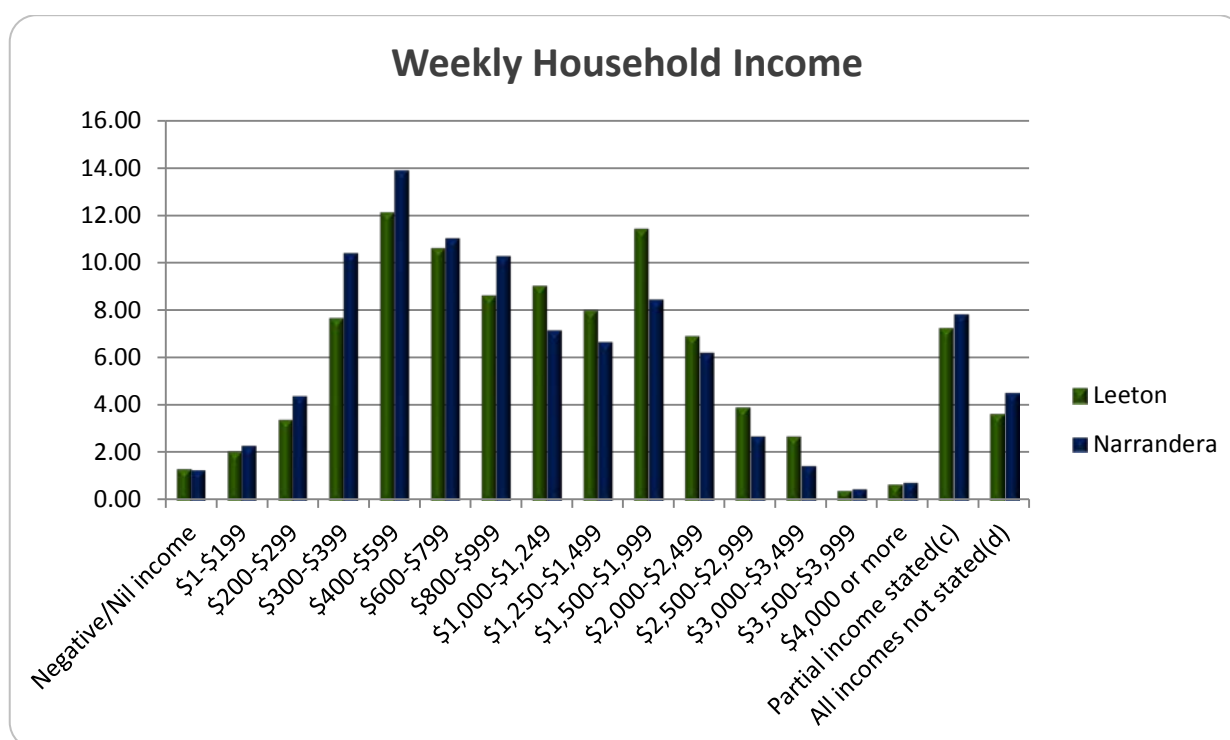
6.3 Occupations

Narrandera has a higher proportion of managers than Leeton, along with community and personal service workers. Leeton has higher proportions of people in all other occupations.



7. HOUSEHOLD INCOME AND WEALTH

Both LGAs sit in a large cluster of areas with low wealth, mainly from properties and businesses with fairly heavy liabilities countered by reasonable growth in net wealth. Overall, Leeton has a higher proportion of households in the higher earning categories.



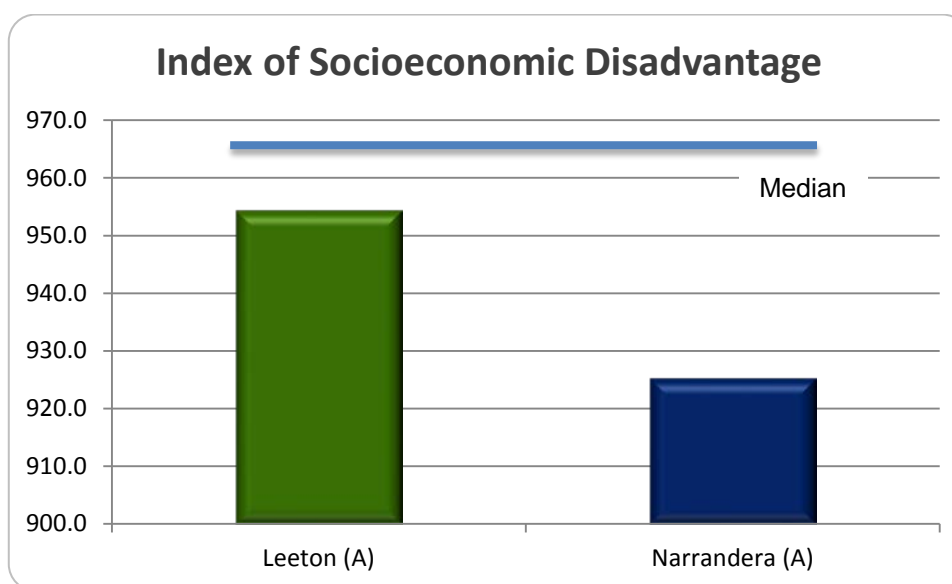
8. SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Disadvantage measures the relative level of socio-economic disadvantage based on a range of census characteristics. It is a good place to start to get a general view of the relative level of disadvantage in one area compared to others and is used to advocate for an area based on its level of disadvantage.

The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations.

Lower scores on the index reflect higher levels of disadvantage, where higher scores indicate greater advantage. The SEIFA index provides a ranking of all 152 NSW council areas, as follows, where 1 is the most advantaged area.

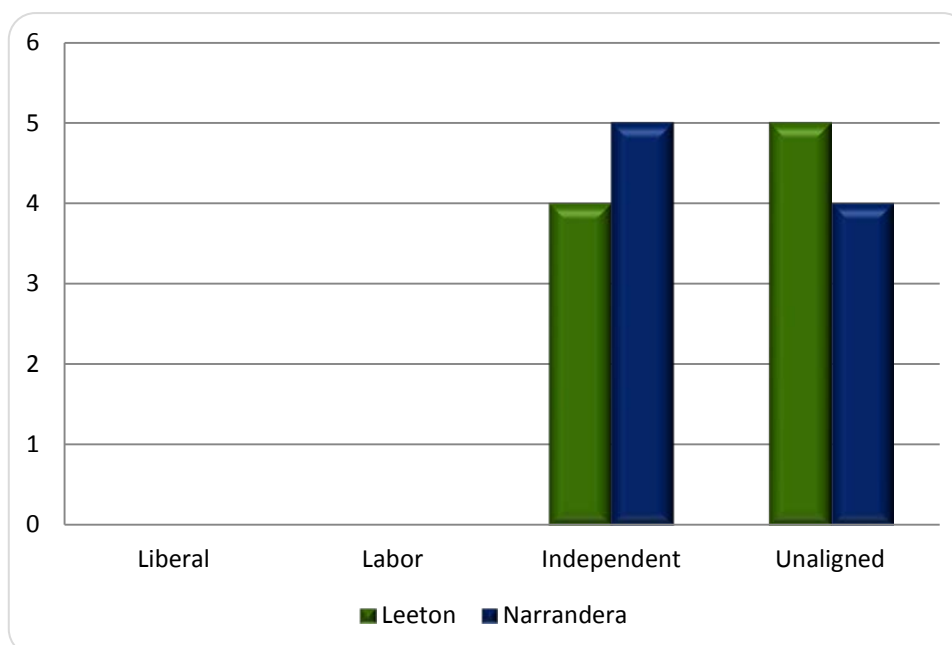
Leeton and Narrandera both fall in the lower 50% of LGAs in NSW for socioeconomic disadvantage (relatively more disadvantaged), with Leeton closer to the median than Narrandera.



9. POLITICAL PARTY COMPOSITION

9.1 Local Government

The composition of each elected council is presented below:



9.2 State and Federal Government

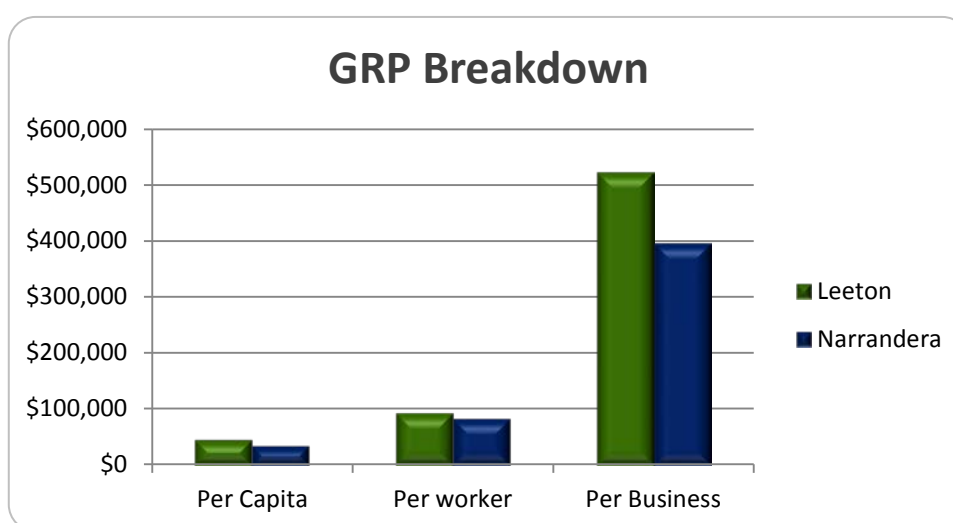
State and federal political representation across the Leeton and Narrandera LGAs is dominated by the Liberal Party.

10. LOCAL ECONOMIC FEATURES

10.1 Gross Regional Product

The gross regional products for each of the council areas are:

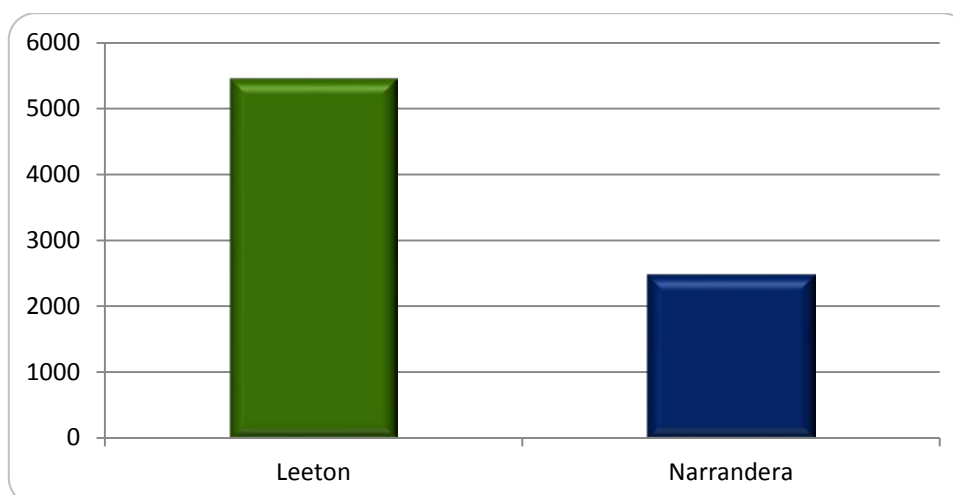
	2012/13 (\$m)
Leeton	\$511
Narrandera	\$208



In relative terms, Leeton has the larger economy based on per capita, per worker and per business.

10.2 Size of Workforce

The number of jobs located within each area is as follows:



This equates to a residents to jobs ratio of 2:1 for Leeton and 2.3:1 for Narrandera.

11. INTERDEPENDENCE AND ECONOMIC RELATIONSHIPS

The major interdependency noted in the *Similarities and Differences Report* is between Griffith and Leeton, Narrandera, Murrumbidgee and Carrathool. Griffith has consolidated its position in the commercial hierarchy at the expense of both Leeton and Narrandera and is the retail centre, with Leeton forming a secondary centre within this hinterland.

11.1 Workers' Place of Residence

The most prominent places of residence for people employed in local jobs in each area are:

	1	2	3
Leeton	Leeton 88%	Narrandera 7%	Griffith 2%
Narrandera	Narrandera 84%	Leeton 7%	Coolamon 2.5%

Leeton has slightly higher employment containment, with 88% of jobs taken by residents, compared to Narrandera at 84%.

11.2 Residents' Place of Work

The most prominent locations of employment for local residents of each area are:

	1	2	3
Leeton	Leeton 78%	Griffith 7%	Narrandera 3%
Narrandera	Narrandera 69%	Leeton 12%	Griffith 4%

Once again Leeton demonstrates higher employment containment, with over three quarters of working residents living and working in the same LGA, compared to 69% for Narrandera. Movements from both LGAs into Griffith are also noted.

11.3 Relationship Clusters

The *Similarities and Differences report* notes that Leeton and Narrandera are in a cluster of areas that are categorised as 'distant', do not rely heavily on their neighbours for employment and do not have close migration ties with them.

